

**Massachusetts Bay
Commuter Railroad Company, LLC**

STATEMENT OF QUALIFICATIONS
for
MBTA COMMUTER RAIL SERVICES
2012



Alternate Concepts, Inc., Bombardier Transit Corporation and Veolia Transportation, Inc.

Members of Massachusetts Bay Commuter Railroad Company, LLC



Massachusetts Bay
Commuter Railroad Company

July 12, 2012

Ms. Lauren Coughlin
Project Coordinator
Massachusetts Bay Transportation Authority
Ten Park Plaza, Room 2810
Boston, MA 02116-3974

Dear Ms. Coughlin:

On behalf of the Massachusetts Bay Commuter Railroad Company, LLC ("MBCR"), we are pleased to submit our Statement of Qualifications in response to the Massachusetts Bay Transportation Authority's ("MBTA") Request for Qualifications for Commuter Rail Services.

MBCR, a limited liability company of three equity members – Alternate Concepts, Inc. ("ACI"), Bombardier Transit Corporation ("Bombardier"), and Veolia Transportation, Inc. ("VTI") – strongly affirms our desire to be considered for the next contract. MBCR is a railroad under federal law and is an employer covered by the Railroad Retirement Act and the Railroad Unemployment Insurance Act. As the current operator since 2003, MBCR has demonstrated its commitment to provide a safe, reliable, and customer-oriented rail service. After nine years, we understand the uniqueness of this complicated railroad with its multiple lines, aging infrastructure, discerning customers, and varying right-of-way owners. We know the day-to-day pressures of being a large and visible public agency residing where the often conflicting pressures from riders, taxpayers, elected officials, community groups, and the media all intersect. Understanding all of that, we have always tried to execute at the highest level.

Our performance is founded on and driven by the corporate cultures of our three members – ACI, Bombardier, and VTI – which blends historic expertise and knowledge earned through operating public transportation in Boston, in Massachusetts, in America, and around the world. It emerges from our local management team, which is not only highly dedicated and skilled but can draw upon everything these three world-class companies have to offer.

MBCR is a Delaware limited liability company, qualified to do business in Massachusetts, with offices located at 89 South Street, 8th Floor, Boston, Massachusetts, 02111. Mr. Hugh J. Kiley, Jr., General Manager, is our authorized representative and will be our contact person for the bid process. Mr. Kiley is located at the corporate address listed above. His office phone number is 617-222-8022, his fax number is 617-222-8026, and email address is hugh.kiley@mbcrr.net.

The proposal we hope to deliver to you will not simply be more of the same but one that takes what we have already done and brings it to a new level of performance and value, by adding what we could not even have dreamed about in 2003.

Sincerely,

Hugh J. Kiley, Jr.
General Manager and Authorized Representative
Massachusetts Bay Commuter Railroad Company, LLC

Matthew Byrne
Vice President
Bombardier Transit Corporation

James F. O'Leary
President
Alternate Concepts, Inc.
Ronald J. Hartman
Executive Vice President
Veolia Transportation, Inc.

Massachusetts Bay Transportation Authority

ACKNOWLEDGMENT OF RECEIPT

(To be attached to Statement of Qualifications cover letter)

Massachusetts Bay Commuter Railroad Company, LLC.

(Name of Proposer)

We hereby acknowledge receipt of the Massachusetts Bay Transportation Authority Passenger Rail Procurement Request for Qualifications dated May 25, 2012, and subsequent addenda and responses to questions issued by the MBTA.

ADDENDUM Number

Date Issued

1

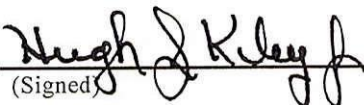
June 28, 2012

Response to Questions Number

Date Issued

Addendum #1 MBTA
Responses to Form RFQ-C
Questions

June 28, 2012


(Signed)

7/12/2012

(Date)

Hugh J. Kiley

(Printed or Typed Name)

General Manager

(Title)

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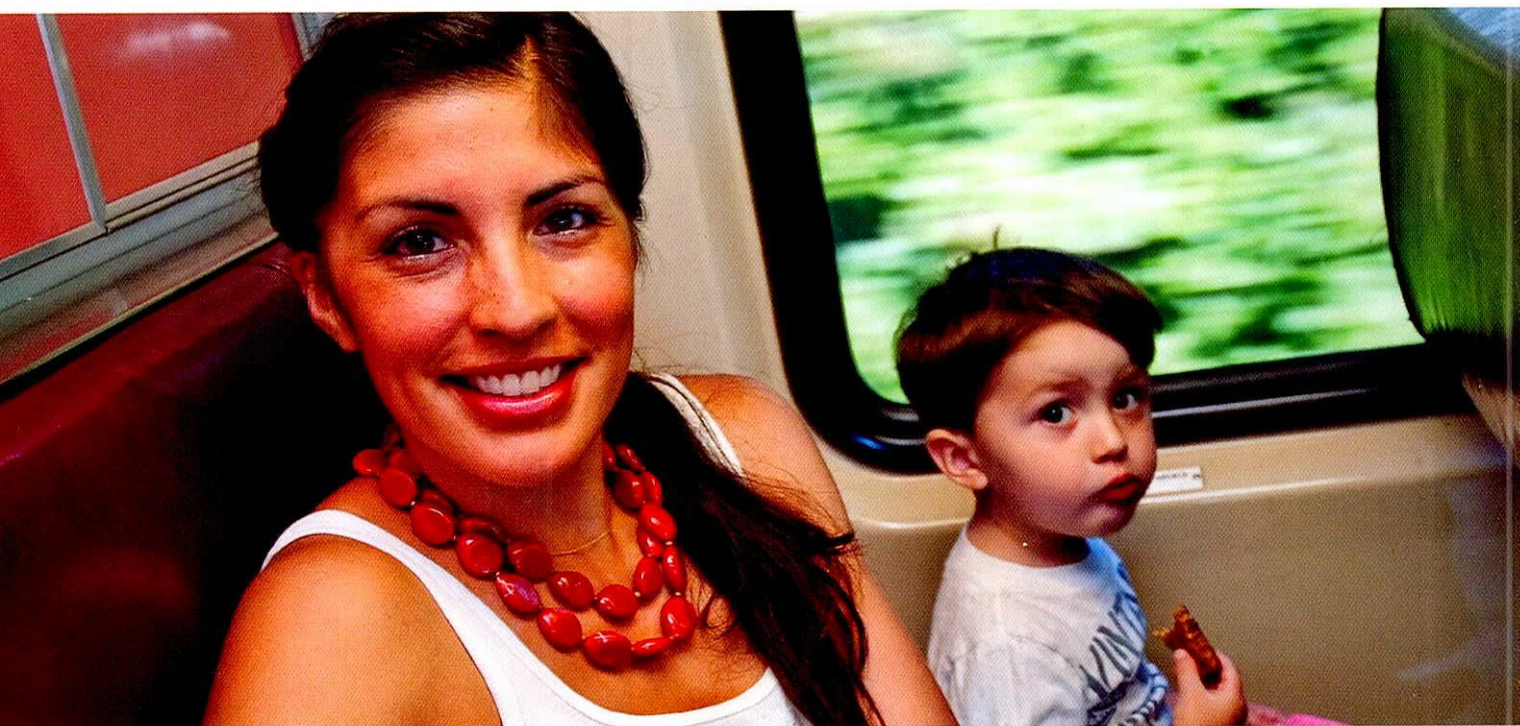
7

Form PP

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Legal

Legal

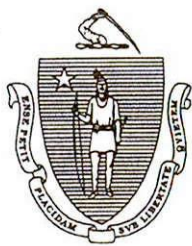


Massachusetts Bay Transportation Authority

FORM L-1

PROPOSER'S ORGANIZATION INFORMATION

PROPOSER			
Name of Entity: Massachusetts Bay Commuter Railroad Company, LLC Address: 89 South Street, 8 th Floor, Boston, MA 02111  Contact Name: Hugh J. Kiley, Jr. Title: General Manager Telephone Number: 617-222-8022 E-mail: hugh.kiley@mbcr.net			
LOCAL / REGIONAL CONTACT (if different from above)			
Name: Address: Telephone Number: E-mail:			
NAME(S) OF PROPOSER FIRMS (if a Joint Venture, Limited Liability Company, or partnership)			
Company Name	Address and E-mail Address	Name of Contact	Telephone Number
Veolia Transportation, Inc.	8601 Georgia Avenue, Suite 703	Ronald Hartman	240-485-2114
	Silver Springs, MD 20910		
	ron.hartman@veoliatransdev.com		
Bombardier Transit Corporation	1209 Orange Street	Matthew Byrne	905-795-0816
	Wilmington, DE 19801		
	matthew.byrne@ca.transport.bombardier.com		
Alternate Concepts, Inc.	148 State Street	James O'Leary	617-523-3131
	Boston, MA 02109		
	joleary@aciboston.com		



William Francis Galvin
Secretary of the
Commonwealth

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

June 6, 2012

TO WHOM IT MAY CONCERN:

I hereby certify that a certificate of registration of a Foreign Limited Liability Company was filed in this office by

MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC

in accordance with the provisions of Massachusetts General Laws Chapter 156C on **October 9, 2002**.

I further certify that said Limited Liability Company has filed all annual reports due and paid all fees with respect to such reports; that said Limited Liability Company has not filed a certificate of cancellation or withdrawal; and that, said Limited Liability Company is in good standing with this office.

I also certify that the names of all managers listed in the most recent filing are:
MATTHEW BYRNE, MICHELE CYNA, RON HARTMAN, JAMES F. O'LEARY, MARK JOSEPH

I further certify that the name of persons authorized to act with respect to real property instruments listed in the most recent filings are: **MATTHEW BYRNE, MICHELE CYNA, RON HARTMAN, JAMES F. O'LEARY, MARK JOSEPH**



In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin
Secretary of the Commonwealth



William Francis Galvin
Secretary of the
Commonwealth

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

June 19, 2012

TO WHOM IT MAY CONCERN:

I hereby certify that according to the records of this office,

VEOLIA TRANSPORTATION, INC.

a corporation organized under the laws of **Delaware** on **December 22, 1998** was qualified to do business in this Commonwealth on **February 20, 2001** pursuant to the provisions of Massachusetts General Laws.

I also certify that the corporation's certificate of authority to conduct affairs in this state was revoked under the provisions of General Laws on **March 31, 2008**.

I further certify that the corporation was reinstated to do business in the Commonwealth on **June 19, 2012** pursuant to the provisions of General Laws. I also certify that said corporation is not delinquent in filing annual reports required to date.

In testimony of which,

I have hereunto affixed the

Great Seal of the Commonwealth

on the date first above written.

William Francis Galvin

Secretary of the Commonwealth



Processed By:sam



The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

June 6, 2012

To Whom It May Concern:

I hereby certify that the records of this office show that

BOMBARDIER TRANSIT CORPORATION

a corporation organized under the laws of **Delaware** on **February 28, 1998** was qualified to do business in this Commonwealth on **May 2, 2002** under the provisions of the General Laws, and I further certify that said corporation is still qualified to do business in this Commonwealth.

I also certify that said corporation is not delinquent in the filing of any annual reports required to date.



In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth



William Francis Galvin
Secretary of the
Commonwealth

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

June 6, 2012

TO WHOM IT MAY CONCERN:

I hereby certify that according to the records of this office,

ALTERNATE CONCEPTS INC.

is a domestic corporation organized on **February 8, 1989**, under the General Laws of the Commonwealth of Massachusetts.

I further certify that there are no proceedings presently pending under the Massachusetts General Laws Chapter 156D section 14.21 for said corporation's dissolution; that articles of dissolution have not been filed by said corporation; that, said corporation has filed all annual reports, and paid all fees with respect to such reports, and so far as appears of record said corporation has legal existence and is in good standing with this office.



In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin
Secretary of the Commonwealth

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MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC

Pursuant to Section 5.3.2.1(B) of that certain Massachusetts Bay Transportation Authority Commuter Rail Procurement Request for Qualifications (the "RFQ"), the undersigned, being all of the members and directors of Massachusetts Bay Commuter Railroad Company, LLC, a Delaware limited liability company (the "Company"), certify that:

A. Equity Ownership.

1. Veolia Transportation, Inc., a Delaware corporation registered to do business in the Commonwealth of Massachusetts ("Veolia"), holds sixty percent (60%) of the Interests (as such term is defined in the Company's Operating Agreement) of the Company. A certified copy of Veolia's Foreign Corporation Certificate of Registration is included in Section One herein.
2. Bombardier Transit Corporation, a Delaware corporation registered to do business in the Commonwealth of Massachusetts ("Bombardier"), holds twenty percent (20%) of the Interests of the Company. A certified copy of Bombardier's Foreign Corporation Certificate of Registration is included in Section One herein.
3. Alternate Concepts Inc., a Massachusetts corporation ("ACI"), holds twenty percent (20%) of the Interests of the Company. A certified copy of ACI's Massachusetts Corporation Certificate of Good Standing is included in Section One herein.

B. Directors.

The following persons are the directors of the Company as of the date hereof:

Matthew Byrne
Ron Hartman
Mark Joseph
Michele Cyna
James F. O'Leary

C. Statement of Joint and Several Liability.

The undersigned members of the Company hereby agree and certify to the Massachusetts Bay Transportation Authority (the "MBTA") that each of the undersigned members shall be jointly and severally liable with respect to the transaction of business by the Company with the MBTA and in connection with any failure of the Company to observe and perform any of the terms, covenants and conditions to be performed or observed by the Company pursuant to or in connection with any agreement that the Company may enter into with the MBTA, including the RFQ.

D. Organizational Documents

Attached in Section One herein is a true, correct and complete copy of the Operating Agreement of the Company, and any amendments thereto ("Operating Agreement"), which Operating Agreement has not been modified, rescinded, revoked or amended, and is in full force and effect as of the date hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned members and directors have set their hands
this 25th day of June, 2012.

MEMBERS:

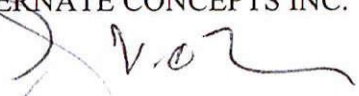
VEOLIA TRANSPORTATION, INC.

By: 
Name: Mark L. Joseph
Title: Chairman, CEO & President

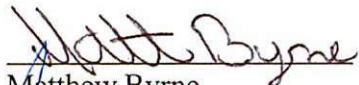
BOMBARDIER TRANSIT
CORPORATION

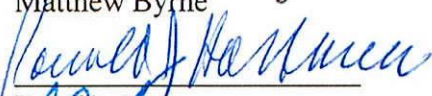
By: _____
Name: _____
Title: _____

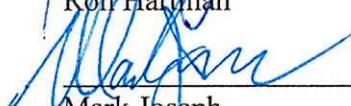
ALTERNATE CONCEPTS INC.

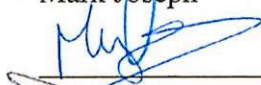
By: 
Name: James F. O'Leary
Title: President

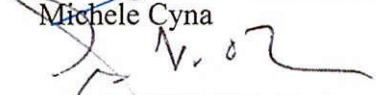
DIRECTORS:


Matthew Byrne


Ron Hartman


Mark Joseph


Michele Cyna


James F. O'Leary

IN WITNESS WHEREOF, the undersigned members and directors have set their hands
this ____ day of _____, 2012.

MEMBERS:

VEOLIA TRANSPORTATION, INC.

By: _____

Name:

Title:

BOMBARDIER TRANSIT
CORPORATION

By: Matthew Byrne

Name: Matthew Byrne

Title: VP Services

By: Julie Turgeon

Name: Julie Turgeon

Title: VP, Contracts and legal Affairs

ALTERNATE CONCEPTS INC.

By: _____

Name:

Title:

DIRECTORS:

Matthew Byrne
Matthew Byrne

Ron Hartman

Mark Joseph

Michele Cyna

James F. O'Leary

POWER OF ATTORNEY

VEOLIA TRANSPORTATION, INC., a Delaware corporation (the "Company"), by its duly authorized President, hereby authorizes, constitutes and appoints RON HARTMAN, MARK JOSEPH and MICHELE CYNA, each individually and each with full power of substitution, as its true and lawful attorneys-in-fact and authorized agents, in its name, place and stead to act for and in the name of the Company, each acting singly, to execute, deliver, endorse and acknowledge all agreements, documents and certificates to be executed by the Company in its capacity as a member of Massachusetts Bay Commuter Railroad Company, LLC, a Delaware limited liability company ("MBCR"), and in connection therewith, to act and serve as the Company's authorized agents to do all such acts and things as may be necessary or appropriate in order to carry out the business of the Company with MBCR.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company, by its President, duly authorized, has executed
this Power of Attorney this 25th day of June, 2012.



Sworn and subscribed to before me
This 25th day of June, 2012.

Helene M. Maher

Notary Public

My commission expires: 8-6-2014

VEOLIA TRANSPORTATION, INC.

By: [Signature]

Name: Mark L. Joseph

Title: Chairman, CEO & President

POWER OF ATTORNEY

BOMBARDIER TRANSIT CORPORATION, a Delaware corporation (the "Company"), by its duly authorized representatives, hereby authorizes, constitutes and appoints the following named persons, as its true and lawful attorneys-in-fact with full power and authority to act jointly, in the name and on behalf of the Corporation. Any two of the attorneys-in-fact are hereby granted the authority to execute, deliver, endorse and acknowledge all agreements, documents and certificates to be executed by the Company in its capacity as a member of Massachusetts Bay Commuter Railroad Company, LLC, a Delaware limited liability company ("MBCR"), and in connection therewith, to act and serve as the Company's authorized agents to do all such acts and things as may be necessary or appropriate in order to carry out the business of the Company with MBCR in connection with any agreement with the Massachusetts Bay Transportation Authority ("MBTA"), including the Commuter Rail Procurement Request for Qualifications (the "RFQ").

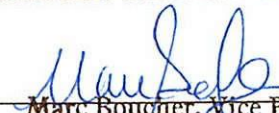
First Name	Last Name
1- Matthew	Byrne
2- Thomas	Martin
3- Julie	Turgeon
4- Hugues	Jacquin

This Power of Attorney is valid until July 12, 2013 unless it is revoked by Bombardier Transit Corporation.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company, by its duly authorized representatives, has
executed this Power of Attorney this 4 day of July, 2012.

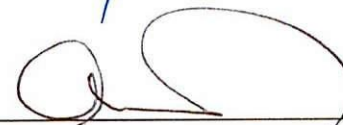
BOMBARDIER TRANSIT CORPORATION

By: 
Name: Marc Bouchier, Vice President

Name: La Pocatière-Plattsburgh Unit

Title: _____

Date: July 4, 2012

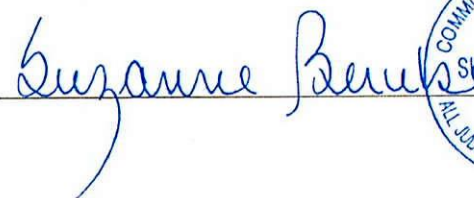
By: 

Name: Christine Brasseur

Title: VP Performance Management
& Design Centre

Date: July 3rd 2012

Sworn before me this 4 Day
of June, 2012

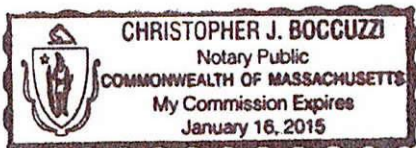




POWER OF ATTORNEY

ALTERNATE CONCEPTS INC., a Massachusetts corporation (the "Company"), by its duly authorized Treasurer, hereby authorizes, constitutes and appoints JAMES F. O'LEARY, individually and with full power of substitution, as its true and lawful attorneys-in-fact and authorized agent, in its name, place and stead to act for and in the name of the Company, acting singly, to execute, deliver, endorse and acknowledge all agreements, documents and certificates to be executed by the Company in its capacity as a member of Massachusetts Bay Commuter Railroad Company, LLC, a Delaware limited liability company ("MBCR"), and in connection therewith, to act and serve as the Company's authorized agent to do all such acts and things as may be necessary or appropriate in order to carry out the business of the Company with MBCR.

IN WITNESS WHEREOF, the Company, by its Treasurer, duly authorized, has executed this Power of Attorney this 18 day of June, 2012.



Sworn to before me this 18th day of
June 2012.

Notary Public

My commission expires:

Christopher J. Bocuzzi
January 16, 2015

ALTERNATE CONCEPTS INC.

By: Jane Daly

Name: Jane Daly
Title: Principal

#50734891

POWER OF ATTORNEY

VEOLIA TRANSPORTATION, INC., a Delaware corporation (the "Company"), by its duly authorized Senior Vice President, hereby authorizes, constitutes and appoints HUGH J. KILEY, Jr., individually and with full power of substitution, as the true and lawful attorney-in-fact and authorized agent of the MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC, a Delaware limited liability company ("MBCR"), in place and stead to act for and be the designated contact of MBCR, to execute, deliver, endorse and acknowledge all agreements, documents and certificates to be executed by MBCR in connection with MBCR's response to that certain Request for Qualifications to be submitted to the Massachusetts Bay Transportation Authority with respect to the operation of the commuter railroad system, and to serve as MBCR's authorized agent to do all such acts and things as may be necessary or appropriate in order to carry out the foregoing.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company, by its Senior Vice President, duly authorized,
has executed this Power of Attorney this 23rd day of July, 2012.

VEOLIA TRANSPORTATION, INC.

By: Ronald Hartman
Name: Ronald Hartman
Title: Senior Vice President

Sworn and subscribed to before me
This 23rd day of July, 2012.

Helene M. Maher
Notary Public

My commission expires: 8-06-2014



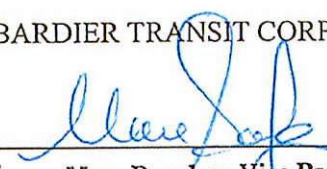
POWER OF ATTORNEY

BOMBARDIER TRANSIT CORPORATION, a Delaware corporation (the "Company"), by its duly authorized representatives, hereby authorizes, constitutes and appoints HUGH J. KILEY, Jr., individually and with full power of substitution, as the true and lawful attorney-in-fact and authorized agent of the MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC, a Delaware limited liability company ("MBCR"), in place and stead to act for and be the designated contact of MBCR, to execute, deliver, endorse and acknowledge all agreements, documents and certificates to be executed by MBCR in connection with MBCR's response to that certain Request for Qualifications to be submitted to the Massachusetts Bay Transportation Authority with respect to the operation of the commuter railroad system, and to serve as MBCR's authorized agent to do all such acts and things as may be necessary or appropriate in order to carry out the foregoing.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company, by its duly authorized representatives, has
executed this Power of Attorney this 18th day of July, 2012.

BOMBARDIER TRANSIT CORPORATION

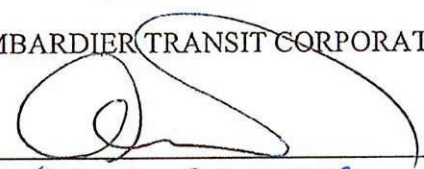
By: 

Name: **Marc Boucher, Vice President**

Title: **La Pocatière-Plattsburgh Unit**

Date: July 17, 2012

BOMBARDIER TRANSIT CORPORATION

By: 

Name: **Christine Brasselle**

Title: **VP Performance Management & Design Centre**

Date: July 18, 2012

This is To certify the
signatures herewith
above are true
and actual.

Signed in St Bruno
on July 18th 2012



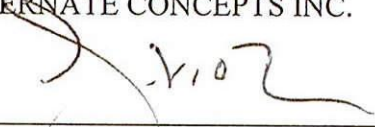


POWER OF ATTORNEY

ALTERNATE CONCEPTS INC., a Massachusetts corporation (the "Company"), by its duly authorized President, hereby authorizes, constitutes and appoints HUGH J. KILEY, Jr., individually and with full power of substitution, as the true and lawful attorney-in-fact and authorized agent of the MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC, a Delaware limited liability company ("MBCR"), in place and stead to act for and be the designated contact of MBCR, to execute, deliver, endorse and acknowledge all agreements, documents and certificates to be executed by MBCR in connection with MBCR's response to that certain Request for Qualifications to be submitted to the Massachusetts Bay Transportation Authority with respect to the operation of the commuter railroad system, and to serve as MBCR's authorized agent to do all such acts and things as may be necessary or appropriate in order to carry out the foregoing.

IN WITNESS WHEREOF, the Company, by its President, duly authorized, has executed this Power of Attorney this 16 day of July, 2012.

ALTERNATE CONCEPTS INC.

By: 

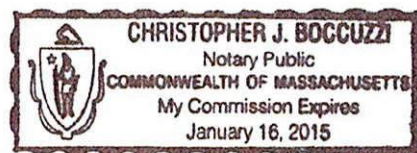
Name: James F. O'Leary

Title: President

Sworn to before me this 16 day of July, 2012.

Notary Public 

My Commission Expires: January 16, 2015



[THIS SECTION ONE, PAGES 1-20 TO 1-96 INTENTIONALLY LEFT BLANK PER MBTA INSTRUCTIONS FOR
PUBLIC COPY]

Financial

Financial



[THIS SECTION TWO, PAGES 2-1 TO 2-145 INTENTIONALLY LEFT BLANK PER MBTA INSTRUCTIONS FOR
PUBLIC COPY]

Bombardier Transit Corporation

Member in Massachusetts Bay Commuter Railroad Company, LLC.

(Membership Interest of 20%)

Financial Information Pursuant to Section Two

(Please note that Bombardier Transit Corporation does not have audited financial statements, therefore, as required by Section 5.3.2.2 (B) (1), included are financial statements for **Bombardier Inc.**, Bombardier Transit Corporation's ultimate parent company and **proposed guarantor.**)

BOMBARDIER TRANSIT CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JANUARY 31, 2010 and 2009

As Excerpted from BOMBARDIER INC. Annual Report, Year Ended January 31, 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and MD&A of Bombardier Inc. and all other information in this Annual Report are the responsibility of Management and have been reviewed and approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian GAAP. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Bombardier's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Bombardier Inc. has been made known to them; and information required to be disclosed in Bombardier Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Bombardier's CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures as of the end of fiscal year 2010. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of fiscal year 2010. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier's CEO and CFO have provided a certification related to Bombardier's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with Management, as well as with the internal and external auditors, to review the Consolidated Financial Statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the Consolidated Financial Statements as presented by Management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the Consolidated Financial Statements and MD&A for issuance to shareholders.

The Consolidated Financial Statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Pierre Beaudoin,
President and CEO



Pierre Alary, CA
Senior Vice President and CFO

March 31, 2010

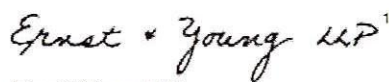
AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the consolidated balance sheets of Bombardier Inc. as at January 31, 2010 and 2009 and the consolidated statements of shareholders' equity, income, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP
Chartered Accountants
Montréal, Canada

March 31, 2010

¹ CA auditor permit no. 9859

CONSOLIDATED BALANCE SHEETS

(In millions of U.S. dollars)

As at January 31		2010	2009 ¹
Assets			
Cash and cash equivalents	Note 11	\$ 3,372	\$ 3,470
Invested collateral	Note 11	682	777
Receivables	Note 4	1,897	1,981
Aircraft financing	Note 5	473	418
Inventories	Note 6	5,268	5,522
Property, plant and equipment	Note 7	1,643	1,568
Intangible assets	Note 8	1,696	1,399
Fractional ownership deferred costs		271	444
Deferred income taxes	Note 19	1,166	1,216
Accrued benefit assets	Note 24	1,070	926
Derivative financial instruments	Note 3	482	626
Goodwill	Note 9	2,247	2,010
Other assets	Note 10	1,006	949
		\$21,273	\$21,306
Liabilities			
Accounts payable and accrued liabilities	Note 12	\$ 7,427	\$ 6,922
Advances and progress billings in excess of related long-term contract costs		1,899	2,072
Advances on aerospace programs		2,092	2,991
Fractional ownership deferred revenues		346	573
Deferred income taxes	Note 19	65	—
Long-term debt	Note 13	4,162	3,952
Accrued benefit liabilities	Note 24	1,084	992
Derivative financial instruments	Note 3	429	1,194
		17,504	18,696
Shareholders' equity			
Equity attributable to shareholders of Bombardier Inc.		3,701	2,544
Equity attributable to non-controlling interests		68	66
		3,769	2,610
		\$21,273	\$21,306
Commitments and contingencies	Note 25		

¹ Refer to Note 1 for impact of new accounting policies.

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the Board of Directors,



Laurent Beaudoin
Director



L. Denis Desautels
Director

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions of U.S. dollars, except number of shares)

For the fiscal years ended January 31		2010		2009 ¹	
		Number (in thousands)	Amount	Number (in thousands)	Amount
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF BOMBARDIER INC.					
	<i>Note 14</i>				
Preferred shares					
Series 2		9,465	\$ 159	9,465	\$ 159
Series 3		2,535	40	2,535	40
Series 4		9,400	148	9,400	148
		21,400	347	21,400	347
Common shares					
Class A Shares (Multiple Voting)					
Balance at beginning of year		316,583	29	316,962	29
Converted to Class B		(351)	–	(379)	–
Balance at end of year		316,232	29	316,583	29
Class B Shares (Subordinate Voting)					
Balance at beginning of year		1,437,520	1,428	1,434,974	1,419
Issuance of shares		647	2	2,167	9
Converted from Class A		351	–	379	–
		1,438,518	1,430	1,437,520	1,428
Held in trust under the PSU					
	<i>Note 14</i>				
Balance at beginning of year		(23,654)	(130)	(21,273)	(89)
Purchased		(7,068)	(21)	(6,942)	(54)
Distributed		5,623	16	4,561	13
Balance at end of year		(25,099)	(135)	(23,654)	(130)
Balance at end of year		1,413,419	1,295	1,413,866	1,298
Balance at end of year - common shares		1,729,651	1,324	1,730,449	1,327
Total – share capital			\$1,671		\$ 1,674
Contributed surplus					
Balance at beginning of year			\$ 104		\$ 68
Stock-based compensation	<i>Note 15</i>		46		51
Options exercised and shares distributed under the PSU plan			(18)		(15)
Balance at end of year			132		104
Retained earnings					
Balance at beginning of year			1,567		706
Net income attributable to shareholders of Bombardier Inc.			698		1,008
Dividends:					
Common shares			(157)		(120)
Preferred shares, net of tax			(21)		(27)
Balance at end of year			2,087		1,567
Accumulated OCI					
	<i>Note 16</i>				
Balance at beginning of year			(801)		311
OCI attributable to shareholders of Bombardier Inc.			612		(1,112)
Balance at end of year			(189)		(801)
			3,701		2,544
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS					
Balance at beginning of year			66		66
Foreign exchange re-evaluation			5		(10)
Net income attributable to non-controlling interests			9		18
Capital distribution			(12)		(8)
Balance at end of year			68		66
SHAREHOLDERS' EQUITY			\$3,769		\$ 2,610

¹ Refer to Note 1 for impact of new accounting policies.

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(In millions of U.S. dollars, except per share amounts)

For the fiscal years ended January 31		2010	2009 ¹
Revenues			
Manufacturing		\$14,739	\$14,779
Services		2,767	3,117
Other		1,860	1,825
		19,366	19,721
Cost of sales	Note 6	16,202	16,049
Selling, general and administrative		1,453	1,558
Research and development		141	171
Other income	Note 17	(26)	(41)
Amortization		498	555
		18,268	18,292
Income before the following:		1,098	1,429
Financing income	Note 18	(96)	(270)
Financing expense	Note 18	279	408
Income before income taxes		915	1,291
Income taxes	Note 19	208	265
Net income		\$ 707	\$ 1,026
Attributable to:			
Shareholders of Bombardier Inc.		\$ 698	\$ 1,008
Non-controlling interests		\$ 9	\$ 18
EPS (in dollars):	Note 20		
Basic		\$ 0.39	\$ 0.57
Diluted		\$ 0.39	\$ 0.56

¹ Refer to Note 1 for impact of new accounting policies.

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of U.S. dollars)

For the fiscal years ended January 31	2010	2009 ¹
Net income	\$ 707	\$ 1,026
OCI	<i>Note 16</i>	
Net unrealized gain (loss) on financial AFS, net of tax ²	20	(20)
Net change in cash flow hedges:		
Foreign exchange re-evaluation	8	(9)
Net gain (loss) on derivative financial instruments designated as cash flow hedges	451	(865)
Reclassification to income or to the related non-financial asset	125	33
Income tax recovery (expense)	(204)	275
	380	(566)
CTA		
Net investments in self-sustaining foreign operations	356	(812)
Net gain (loss) on related hedging items ³	(144)	286
	212	(526)
Total OCI	612	(1,112)
Total comprehensive income	\$1,319	\$ (86)
Attributable to:		
Shareholders of Bombardier Inc.	\$1,310	\$ (104)
Non-controlling interests	\$ 9	\$ 18

¹ Refer to Note 1 for impact of new accounting policies.

² Includes a loss of \$2 million reclassified to income in fiscal year 2010 (nil in fiscal year 2009).

³ Net of income taxes of \$3 million for fiscal year 2010 (\$2 million for fiscal year 2009).

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of U.S. dollars)

For the fiscal years ended January 31	2010	2009 ¹
Operating activities		
Net income	\$ 707	\$1,026
Non-cash items:		
Amortization	498	555
Deferred income taxes	Note 19 (9)	69
Gain on disposals of property, plant and equipment	(19)	(28)
Stock-based compensation	Note 15 46	51
Net change in non-cash balances related to operations	Note 21 (671)	(764)
Cash flows from operating activities	552	909
Investing activities		
Additions to property, plant and equipment and intangible assets	(805)	(621)
Disposals of property, plant and equipment and intangible assets	38	54
Invested collateral	145	390
Other	(82)	(4)
Cash flows from investing activities	(704)	(181)
Financing activities		
Proceeds from issuance of long-term debt	4	–
Repayments of long-term debt	(11)	(166)
Purchase of Class B shares – held in trust under the PSU plan	Note 14 (21)	(54)
Issuance of shares, net of related costs	2	7
Dividends paid	(178)	(147)
Capital distribution to non-controlling interests	(12)	(8)
Other	–	2
Cash flows from financing activities	(216)	(366)
Effect of exchange rate changes on cash and cash equivalents	270	(494)
Net decrease in cash and cash equivalents	(98)	(132)
Cash and cash equivalents at beginning of year	3,470	3,602
Cash and cash equivalents at end of year	\$3,372	\$3,470
Supplemental information		
Cash paid for:		
Interest	\$ 254	\$ 413
Income taxes	\$ 115	\$ 98

¹ Refer to Note 1 for impact of new accounting policies.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services.



BASIS OF PRESENTATION

The Consolidated Financial Statements are expressed in U.S. dollars and have been prepared in accordance with Canadian GAAP. The Corporation and its subsidiaries carry out their operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified.

Changes in accounting policies

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the AcSB released Section 1582 "Business combinations", Section 1601 "Consolidated financial statements" and Section 1602 "Non-controlling interests", which replace Section 1581 "Business combinations" and Section 1600 "Consolidated financial statements".

Section 1582 provides the Canadian equivalent to IFRS 3 "Business Combinations". The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. Also, the previously unrecognized deferred tax assets related to the acquiree subsequent to the business combination are recognized in the consolidated statements of income rather than as a reduction in goodwill. In addition, business acquisition related costs are expensed as incurred.

The adoption of Section 1582 should have a material effect on the accounting for business combinations that occur subsequent to February 1, 2009. Past acquisitions are not restated.

Section 1601, together with Section 1602, replaces Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements and is aligned with the corresponding provisions of Section 1600.

Section 1602 is aligned with the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements" and establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination. Section 1602 introduces a number of changes, for example:

- in the consolidated balance sheets and consolidated statements of shareholders' equity, non-controlling interests are now presented as a separate component of shareholders' equity rather than as a liability;
- non-controlling interests are no longer recorded as a deduction of net income and total comprehensive income as a result of their presentation in equity;
- for the purpose of computing EPS, net income is attributed between the shareholders of Bombardier Inc. and the non-controlling interests based on their respective economic interests. The components of OCI are attributed following the same logic; and
- changes in non-controlling ownership interests not resulting in a loss of control are accounted for as equity transactions, with no gains and losses recorded in the consolidated statements of income.

The Corporation has elected to early adopt these sections, effective February 1, 2009, in order to more closely align itself with IFRS and mitigate the impact of adopting IFRS at the changeover date. In accordance with the transitional provisions, these sections have been applied prospectively, except for the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections did not have a significant impact on the Corporation's consolidated financial statements but gave rise to the above-mentioned reclassifications of non-controlling interests.

Future changes in accounting policies

IFRS

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable entities will be changed to IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. First reporting under IFRS is required for the Corporation's interim and annual financial statements beginning on February 1, 2011.

The Corporation's IFRS project is progressing according to plan. The Corporation has completed its detailed assessment of all key standards and is now in the process of data gathering. For more details on the Corporation IFRS conversion, refer to the IFRS conversion section of the MD&A for the fiscal year ended January 31, 2010 and 2009.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Consolidated Financial Statements include:

- the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned;
- the accounts of VIEs when the Corporation is the primary beneficiary; and
- the Corporation's proportionate share of the assets, liabilities and results of operations and cash flows of its joint ventures.

Subsidiaries – The principal subsidiaries of the Corporation, whose revenues represent more than 10% of total revenues of each respective segment, are as follows:

Subsidiary	Location
Bombardier Transportation GmbH	Germany
Bombardier Transport France S.A.S.	France
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Bombardier Aerospace Corporation	U.S.
Learjet Inc.	U.S.

Most legal entities of BT use a December 31 fiscal year-end. As a result, the Corporation consolidates the operations of BT with a one-month lag with the remainder of its operations. To the extent that significant unusual transactions or events occur during the one-month lag period, the Corporation's Consolidated Financial Statements are adjusted accordingly.

VIEs – AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15") requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the variable interest holder becomes the primary beneficiary. See Note 26 – Variable interest entities, for additional information on VIEs. The Corporation revises its determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, particularly as they relate to long-term contracts, fair value measurement of financial instruments, provision for credit and residual value guarantees related to the sales of aircraft, revenue recognition for medium and large business aircraft, valuation of pre-owned aircraft, actuarial and economic assumptions used in determining employee future benefits, useful lives of long-lived assets, recovery of goodwill, VIEs, accrual of product warranties and income taxes. Management's best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and management assessment of probable future outcomes of these matters. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates, and such differences could be material.

Management conducts quarterly reviews, as well as a detailed annual review of its cost estimates as part of its annual budget process. The effect of revision on long-term contracts is accounted for by way of a cumulative catch-up adjustment to cost of sales in the period in which the revision takes place.

Translation of foreign currencies

The Corporation's functional currencies are mainly the U.S. dollar in BA, and the euro, various other Western European currencies and the U.S. dollar in BT. All significant foreign operations are classified as self-sustaining foreign operations.

Self-sustaining foreign operations – All assets and liabilities are translated using the exchange rates in effect at year-end. Revenues and expenses are translated using the average exchange rates for the period. Translation gains or losses are included in OCI.

Accounts denominated in foreign currencies – Accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated using the exchange rates in effect at year-end and non-monetary items are translated using the historical exchange rates. Revenues and expenses (other than amortization, which is translated using the same exchange rates as the related assets) are translated using the average exchange rates for the period.

Hedging items designated as hedges of net investments in self-sustaining foreign operations – Translation gains or losses, net of tax, related to the hedging items designated as hedges of the Corporation's net investments in self-sustaining foreign operations are included in OCI.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, invested collateral, trade receivables, commercial aircraft loans and lease receivables, investment in securities, investment in VIEs, servicing fees, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade account payables, certain accrued liabilities, related liabilities in connection with the sale of commercial aircraft, accrued interest, certain payroll-related liabilities, long-term debt and derivative financial instruments with a negative fair value.

Financial instruments are recognized on the balance sheet when the Corporation becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in determining the carrying value of financial assets and financial liabilities not classified as HFT. Subsequently, financial assets and financial liabilities are measured according to the category to which they are assigned, which are AFS financial assets, L&R, other than HFT financial liabilities or financial assets and liabilities classified as HFT. See Note 3 – Financial instruments, for their classifications. Financial assets and financial liabilities are subsequently measured at amortized cost, unless they are classified as AFS or HFT, in which case they are subsequently measured at fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions, with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as HFT and measured at fair value.

Invested collateral

Invested collateral consist mainly of bonds (government and agency notes and bonds, corporate bonds and covered bonds), commercial paper and certificates of deposit, held with a custodian. The weighted-average maturity of the securities in the portfolios is not to exceed one year and should have a minimum weighted-average rating of A. These investments serve as collateral for the €3.75-billion (\$5.2-billion) BT letter of credit facility and for the \$600-million BA letter of credit facility (see Note 11 – Credit facilities). The weighted-average credit rating of both portfolios is rated AA+ as at January 31, 2010. These investments include a portion that is invested in asset-backed and mortgage-backed securities of the highest credit quality (AAA). The invested collateral is designated as HFT using the fair value option and measured at fair value. Gains and losses arising on the re-evaluation of the invested collateral are recorded in financing income.

Sales of receivables

Transfers of loans and receivables are recognized as sales when control over these assets has been surrendered and consideration other than beneficial interests in the transferred assets was received. Retained interests are accounted for as loans or lease receivables in accordance with their substance.

When the transfer is considered a sale, all assets sold are derecognized. Assets received and liabilities incurred, such as those arising from credit enhancement support, are recognized at fair value. The gain or loss is recognized upon the sale of assets. Fair values are generally estimated based on the present value of future expected cash flows using management's best estimates for credit losses, forward yield curves and discount rates commensurate with the risks involved.

Loans and lease receivables

Aircraft leased under terms that transfer substantially all of the benefits and risks of ownership to customers are accounted for as sale-type leases and are presented in aircraft financing.

Loans and lease receivables presented in aircraft financing are classified as L&R unless they have been designated as HFT using the fair value option. Loans and lease receivables classified as L&R are carried at amortized cost.

Loans and lease receivables designated as HFT are measured at fair value. Gains and losses arising on the re-evaluation of loans and lease receivables classified as HFT are recorded in other expense (income), except for the interest portion of the gains and losses, which is recorded in financing income.

Assets under operating leases (lessor)

Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, most of which are pre-owned, are presented in aircraft financing.

Long-term investments

Investments in entities over which the Corporation exercises significant influence are accounted for under the equity method and are presented in other assets. Investments in financing structures are classified as L&R, carried at amortized cost and presented in aircraft financing.

Investment in securities are classified as AFS, carried at fair value and presented in other assets. Investments in VIEs are designated as HFT using the fair value option (measured at fair value) and presented in other assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of financial assets

Allowance for doubtful accounts – Trade receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review.

Allowance for credit losses – Loans and lease receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest, generally when contractually due payments are 90 days in arrears or customers have filed for bankruptcy.

The Corporation maintains an allowance for credit losses in an amount sufficient to absorb expected losses. The level of allowance is based on management's assessment of the risks associated with each of the Corporation's portfolios, including delinquencies, loss and recovery experience, collateral-specific factors, including age and type of aircraft, risk of individual customer credit, published historical default rates for different credit rating categories, commercial airline industry performance, and the impact of current and projected economic conditions.

Other-than-temporary impairment for investment in securities – When there is objective evidence that a decline in fair value of an AFS financial asset is other than temporary, the cumulative loss equal to the difference between the acquisition cost of the investment and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for equity instruments classified as AFS cannot be reversed. Impairment losses recognized in net income for debt instruments classified as AFS can be reversed if the increase can be objectively related to an event occurring after the impairment losses were recognized.

Inventory valuation

Aerospace programs – Inventories determined under the unit cost method are recorded at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. Cost of inventories includes materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition.

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (the reversal is limited to the amount of the original write-down).

Long-term contracts – Long-term contract inventories accounted for under the percentage-of-completion method includes materials, direct labour and manufacturing overhead as well as estimated contract margins. Inventories related to long-term service contracts accounted for as the services are rendered include materials, direct labour and manufacturing overhead.

Finished products – Finished product inventories, which include spare parts and new and pre-owned aircraft, are mainly determined under the unit cost and moving average method, and are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (the reversal is limited to the amount of the original write-down).

The Corporation estimates net realizable value by using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

Payments, advances and progress billings – Payments received on account of work performed for long-term contracts are deducted from related costs in inventories. Advances received and progress billings in excess of related costs are shown as liabilities.

Property, plant and equipment

Property, plant and equipment are recorded at cost and include certain leased equipments.

Amortization is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Other	3 to 20 years

Amortization of assets under construction begins when they are ready for their intended use.

Improvements to existing property, plant and equipment that significantly extend the useful life or utility of the assets are capitalized, whereas maintenance and repair costs are charged to income when incurred.

Intangible assets

Intangible assets are recorded at cost and are comprised of aerospace program tooling as well as costs related to licences, patents and trademarks and other intangible assets. The Corporation does not have indefinite-lived intangible assets, other than goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Aerospace program tooling – Development costs, including prototype design, testing costs and interest charges during the development, are capitalized when certain criteria for deferral are met, such as proven technical feasibility and official program launch. Amortization begins at the date of delivery of the first aircraft of the program.

Licences, patents and trademarks – Represents mainly intangible assets acquired from third parties. Amortization begins when the asset is ready for its intended use.

Other intangible assets – These costs are mainly related to application software. Internally modified application software are capitalized when certain criteria for deferral are met, such as proven technical feasibility. Application software are treated as intangible assets as they are not integral to the operation of a related hardware. Amortization begins when the asset is ready for its intended use.

Amortization is computed under the following methods and estimated useful lives:

Aerospace program tooling	Straight-line	10 years
Licences, patents and trademarks	Straight-line	3 to 20 years
Other intangible assets	Straight-line	3 to 5 years

Impairment of long-lived assets

Impairment – Long-lived assets include aircraft under operating leases, property, plant and equipment and finite-life intangible assets. Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The first step in the recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. If the carrying value exceeds the undiscounted cash flows, the amount of the impairment is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in amortization.

Long-lived assets held for sale are recorded at the lower of cost or fair value, less cost to sell.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually, or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired.

The Corporation evaluates the recoverability of goodwill using a two-step test approach at the segment level ("reporting unit"). Under the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

Guarantees

The Corporation has issued credit guarantees, residual value guarantees, trade-in commitment and performance guarantees. Guarantees are initially recognized at fair value on the date the guarantees are unconditionally given.

Credit and residual value guarantees related to the sale of aircraft are subsequently remeasured using the settlement-value method. Subsequent changes in the value of these guarantees are recorded in cost of sales, except for the interest portion, which is recorded in financing expense.

Subsequent to initial recognition, adverse changes in the fair value of the trade-in aircraft are recorded in cost of sales as they occur.

Other guarantees are subsequently remeasured when a loss becomes probable.

Derivative financial instruments

Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks. They consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. Derivative financial instruments are measured at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

Derivative financial instruments are classified as HFT, unless they are designated as hedging instruments for which hedge accounting is applied (see below). Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in other expense (income) or financing income or financing expense, based on the nature of the exposure.

Embedded derivatives of the Corporation include financing rate commitments, call options on long-term debt and foreign exchange instruments. Upon initial recognition, the fair value of financing rate commitments is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the aircraft. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in other expense (income). Gains and losses arising on the re-evaluation of embedded derivatives are recorded in other expense (income) or in financing income or financing expense, based on the nature of the exposure.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Hedge accounting

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted foreign currency cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

Fair value hedges – The Corporation designates certain interest-rate derivatives and forward foreign exchange contracts as fair value hedges. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.

Cash flow hedges – The Corporation designates forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.

Hedge of net investments in self-sustaining foreign operations – The Corporation designates certain cross-currency interest-rate swap agreements and long-term debt as hedges of its net investments in self-sustaining foreign operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified to net income when corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recorded in net income.

The portion of gains or losses on the hedging item that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Gains and losses on derivatives not designated in a hedge relationship and gains and losses on the ineffective portion of effective hedges are recorded in other expense (income), or in financing income or financing expense for the interest component of the derivatives or when the derivatives were entered into for interest-rate management purposes.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Stock-based compensation and other stock-based payments

Share option plans – All awards granted or modified after January 31, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using a modified Black-Scholes option-pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase in contributed surplus.

All awards granted or modified prior to February 1, 2003 are accounted for as capital transactions. No compensation expense is recorded in income for these awards.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

PSU and DSU plans – The value of the compensation for PSUs and DSUs that are expected to vest is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange on the date of grant. The value of the compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. The effect of any change in the number of PSUs and DSUs that are expected to vest is accounted for in the period in which the estimate is revised.

Employee share purchase plan – The Corporation's contributions to the employee share purchase plan are accounted for in the same manner as the related employee payroll costs.

Revenue recognition

Aerospace programs – Revenues from the sale of commercial aircraft and light business aircraft (*Learjet Series*) are recognized upon final delivery of products and presented in manufacturing revenues.

Medium and large business aircraft (*Challenger* and *Global Series*) contracts are segmented between green aircraft (i.e. before exterior painting and installation of customer-selected interiors and optional avionics) and completion. Revenues are recognized based on green aircraft deliveries (when certain conditions are met), and upon final acceptance of interiors and optional avionics by customers. Revenues for green aircraft delivery and completion are presented in manufacturing revenues.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fractional shares – Revenues from the sale of aircraft fractional shares are recognized over the period during which the related services are rendered to the customer, generally five years, and are included in manufacturing revenues. At the time of sale, the proceeds from the sale are recorded in fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to fractional ownership deferred costs and is charged to cost of sales over the same period. Other revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer and are presented in services revenues.

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method of accounting. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Vehicle and component overhaul revenues are presented in services revenues. System and signalling revenues are presented in other revenues. All other long-term manufacturing contract revenues are presented in manufacturing revenues.

Revenues from maintenance service contracts entered into on or after December 17, 2003 are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract and are presented in services revenues. Maintenance service contracts entered into before this date are recognized using the percentage-of-completion method of accounting.

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in services revenues.

Estimated revenues from long-term contracts include revenues from change orders and claims when it is probable that they will result in additional revenues in an amount that can be reliably estimated.

If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in cost of sales in the period in which the negative gross margin is identified.

Other – Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in other revenues and spare parts revenues are included in services revenues. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in other revenues. Interest income related to aircraft financing is recognized over the term of the applicable loans or leases using the effective interest method and is included in financing income.

Sales incentives

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit and residual value guarantees, financing rate commitment, trade-in commitments, conditional repurchase obligations and free related product and services.

Credit and residual value guarantees related to the sale of aircraft and trade-in commitments are discussed in the guarantees section and financing rate commitment are discussed in the derivative financial instruments section.

Conditional repurchase obligations are accounted for as trade-in commitments from the time the Corporation enters into an agreement for the sale of a new aircraft and the customer exercises its right to partially pay for the new aircraft by trading in its pre-owned aircraft. No provision is recorded for conditional repurchase obligations until they become trade-in commitments.

Other sales incentives, such as free training and spare parts, are recorded at their estimated cost as a reduction of manufacturing revenues or included in cost of sales at the time of the sale.

Government assistance

Government assistance, including investment tax credits, relating to the acquisition of inventories, property, plant and equipment and intangible assets, is recorded as a reduction of the cost of the related asset. Government assistance, including investment tax credits, related to current expenses is recorded as a reduction of the related expenses.

Product warranties

A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews its recorded product warranty provisions quarterly and any adjustment is recorded in cost of sales.

Income taxes

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for income tax losses carried forward. Deferred income tax assets and liabilities are measured using substantively enacted tax rates, which will be in effect for the year in which the differences are expected to reverse.

A valuation allowance is recorded to reduce the carrying amount of deferred income tax assets when it is more likely than not that these assets will not be realized.

Earnings per share

Basic earnings per share are computed based on net income less dividends on preferred shares, net of tax, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

Diluted earnings per share are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Employee future benefits

The defined benefit plans are accounted for as follows:

- Plan assets are measured at fair value.
- With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
- The net actuarial gains and losses over 10% of the greater of the projected benefit obligation and the market-related value of plan assets, as well as past service costs, are amortized over the estimated weighted-average remaining service life of plan participants, which is on average approximately 14 years but varies from plan to plan.
- Plan obligations are determined based on expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.
- When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation by the Corporation.
- The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and healthcare costs.
- Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling, or is recognized directly through income.
- The Corporation uses a December 31 measurement date.

Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Environmental costs that are not legal asset retirement obligations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

3

FINANCIAL INSTRUMENTS

The classification of financial instruments as HFT, AFS, L&R and other than HFT, as well as their carrying amounts and fair values, were as follows as at:

January 31, 2010							
	HFT			Amortized		Total	Fair
	Required	Designated	AFS	cost ¹	DDHR ²	carrying value	value
Financial assets							
Cash and cash equivalents	\$3,372	\$ -	\$ -	\$ -	\$ -	\$3,372	\$3,372
Invested collateral	-	682	-	-	-	682	682
Receivables	-	-	-	1,766 ³	-	1,766	1,766
Aircraft financing	-	280 ⁴	-	95 ⁵	-	375	375
Derivative financial instruments	98 ⁶	-	-	-	384	482	482
Other assets	-	228 ⁷	328 ⁸	115 ⁹	-	671	671
	\$3,470	\$1,190	\$328	\$1,976	\$384	\$7,348	\$7,348
Financial liabilities							
Accounts payable and accrued liabilities	\$ -	\$ 196 ¹⁰	n/a	\$3,726 ¹¹	\$ -	\$3,922	\$3,922
Long-term debt	-	-	n/a	4,162	-	4,162	4,035
Derivative financial instruments	77 ⁶	-	n/a	-	352	429	429
	\$ 77	\$ 196	n/a	\$7,888	\$352	\$8,513	\$8,386

January 31, 2009							
	HFT					Total carrying value	Fair value
	Required	Designated	AFS	Amortized cost ¹	DDHR ²		
Financial assets							
Cash and cash equivalents	\$3,470	\$ —	\$ —	\$ —	\$ —	\$3,470	\$3,470
Invested collateral	—	777	—	—	—	777	777
Receivables	—	—	—	1,905 ³	—	1,905	1,905
Aircraft financing	—	240 ⁴	—	104 ⁵	—	344	335
Derivative financial instruments	179 ⁶	—	—	—	447	626	626
Other assets	—	231 ⁷	203 ⁸	160 ⁹	—	594	594
	\$3,649	\$1,248	\$203	\$2,169	\$ 447	\$7,716	\$7,707
Financial liabilities							
Accounts payable and accrued liabilities	\$ —	\$ 192 ¹⁰	n/a	\$3,675 ¹¹	\$ —	\$3,867	\$3,867
Long-term debt	—	—	n/a	3,952	—	3,952	2,965
Derivative financial instruments	163 ⁶	—	n/a	—	1,031	1,194	1,194
	\$ 163	\$ 192	n/a	\$7,627	\$1,031	\$9,013	\$8,026

1 Financial assets classified as L&R and financial liabilities as other than HFT.

2 DDHR: Derivatives designated in a hedge relationship.

3 Represents trade receivables and certain other receivables.

4 Represents certain commercial aircraft loans and lease receivables.

5 Represents certain commercial aircraft loans and lease receivables, investment in financing structures and business aircraft loans.

6 Represents derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

7 Includes investment in VIEs, prepayment under an exchange agreement and servicing fees.

8 Represents investment in securities.

9 Includes restricted cash.

10 Represents related liabilities in connection with the sale of commercial aircraft.

11 Includes trade accounts payable, accrued interest, as well as certain accrued liabilities and payroll-related liabilities.

n/a: Not applicable

The methods and assumptions used to measure the fair value of financial instruments are described in Note 22 – Fair value of financial instruments.

3 FINANCIAL INSTRUMENTS (CONT'D)

The net gain (loss) on financial instruments recognized in income was as follows for fiscal years:

	2010	2009
Financial instruments measured at amortized cost		
L&R	\$ (4)	\$(13)
Other than HFT	\$ -	\$ 22
Financial instruments measured at fair value		
AFS	\$ (2)	\$ -
Designated as HFT ¹	\$29	\$(13)
Required to be classified as HFT ^{2,3}	\$37	\$(38)

1 Excludes the interest income portion related to the invested collateral and prepayment under an exchange agreement of \$14 million for fiscal year 2010 (\$56 million for fiscal year 2009).

2 Excludes the interest income portion related to cash and cash equivalents of \$26 million for fiscal year 2010 (\$143 million for fiscal year 2009).

3 Includes a net gain of \$53 million in connection with economic hedges not designated in hedging relationships for fiscal year 2010 (net loss of \$62 million for fiscal year 2009).

Net gains (losses) on L&R represent changes in valuation allowance. Net gains (losses) on financial liabilities measured at amortized cost represent gains or losses from derecognition. Net losses on AFS financial assets consist of impairment losses. Net gains (losses) on financial assets and financial liabilities HFT consist of changes in fair value, excluding interest income and interest expense for those classified as HFT. For the amounts of unrealized gains (losses) on AFS financial assets recognized directly in OCI during fiscal years 2010 and 2009, see the consolidated statements of comprehensive income.

Derivative and hedging activities

The carrying amounts of all derivative financial instruments and certain non-derivative financial instruments in a hedge relationship were as follows as at:

	January 31, 2010		January 31, 2009	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges				
Cross-currency interest-rate swap	\$ -	\$ 35	\$ -	\$ -
Interest-rate swaps	140	-	169	3
	140	35	169	3
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts ^{1,2}	244	279	278	1,018
Derivative financial instruments designated as hedges of net investment				
Cross-currency interest-rate swap	-	38	-	10
Derivative financial instruments classified as HFT ³				
Forward foreign exchange contracts	31	53	96	133
Cross-currency interest-rate swap	21	-	9	-
Interest-rate swaps	-	7	-	4
Others	-	-	1	1
Embedded derivative financial instruments:				
Foreign exchange	26	8	73	25
Call options on long-term debt	20	-	-	-
Financing rate commitments	-	9	-	-
	98	77	179	163
Total derivative financial instruments	\$482	\$429	\$626	\$1,194
Non-derivative financial instruments designated as hedges of net investment				
Long-term debt	\$ -	\$399	\$ -	\$ 908
Inter-company loans	-	-	-	29
Total non-derivative financial instruments designated in a hedge relationship	\$ -	\$399	\$ -	\$ 937

1 For fiscal year 2010, the component of the hedging item's gain or loss excluded from the assessment of effectiveness amounted to a net loss of \$3 million (\$20 million for fiscal year 2009).

2 The maximum length of time of the derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 36 months as at January 31, 2010.

3 Held as economic hedges, except for embedded derivative financial instruments.

3 FINANCIAL INSTRUMENTS (CONT'D)

Maturity analysis – The following table presents the maturity analysis of derivative financial instruments. The amounts presented in the table below are the undiscounted cash flows (amounts denominated in foreign currency are translated at the closing balance sheet rate).

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at January 31, 2010:

	Nominal value (USD equivalent)	Undiscounted net cash flows					
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	Total
Derivative financial assets							
Forward foreign exchange contracts	\$6,694	\$ 175	\$ 73	\$ –	\$ –	\$ –	\$ 248
Interest-rate derivatives	1,501	61	72	38	4	–	175
	\$8,195	\$ 236	\$145	\$ 38	\$ 4	\$ –	\$ 423
Derivative financial liabilities							
Forward foreign exchange contracts	\$6,515	\$(216)	\$(99)	\$ –	\$ –	\$ –	\$(315)
Interest-rate derivatives	1,514	8	3	(24)	(85)	(8)	(106)
	\$8,029	\$(208)	\$(96)	\$(24)	\$(85)	\$(8)	\$(421)

4

RECEIVABLES

Receivables were as follows as at January 31:

	2010	2009
Trade receivables ¹		
BA	\$ 858	\$ 937
BT	863	885
	1,721	1,822
Sales tax	74	61
Other	154	168
	1,949	2,051
Allowance for doubtful accounts	(52)	(70)
	\$1,897	\$1,981

¹ Of which \$966 million and \$313 million are denominated in U.S. dollars and euro invoicing currency, respectively, as at January 31, 2010 (\$1,098 million and \$458 million, respectively as at January 31, 2009).

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows as at January 31:

	2010	2009
Balance at beginning of year	\$ (70)	\$ (75)
Provision for doubtful accounts	(11)	(17)
Amounts charged off, net of recoveries	34	12
Effect of foreign currency exchange rate changes	(5)	10
Balance at end of year	\$ (52)	\$ (70)

Receivables that are past due but not impaired – The trade receivables that are past due but not impaired for BA amounted to \$53 million, of which \$14 million were more than 90 days past due as at January 31, 2010 (\$106 million, of which \$25 million were more than 90 days past due as at January 31, 2009).

In addition, \$350 million of trade receivables related to BT long-term contracts are past due but not impaired as at January 31, 2010, of which \$160 million were more than 90 days past due (\$358 million as at January 31, 2009, of which \$169 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

Receivables that are impaired – The Corporation has determined that a gross amount of \$38 million of trade receivables are individually determined to be impaired as at January 31, 2010 (\$62 million as at January 31, 2009). The factors the Corporation considers are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears for over 90 days.

5

AIRCRAFT FINANCING

Aircraft financing was as follows as at January 31:

	2010				2009			
	Weighted-average			Fixed/ variable rate ¹	Weighted-average			Fixed/ variable rate ¹
	Total	Maturity (in months)	Rate (in %) ¹		Total	Maturity (in months)	Rate (in %) ¹	
Commercial aircraft								
Loans	\$ 248	108	9.0	Fix./Var	\$ 194	117	13.1	Fix./var.
Lease receivables ²	69	159	4.1	Fix./Var	82	80	8.3	Fix./var.
	317				276			
Business aircraft loans ³	8	18	7.5	Fix./Var	23	18	6.7	Fix./var.
Total loans and lease receivables	325				299			
Allowance for credit losses	(3)				(10)			
	322				289			
Assets under operating leases	98				74			
Investment in financing structures	53				55			
	\$ 473				\$ 418			

¹ Effective interest rates are before giving effect to the related hedging derivative financial instruments.

² Includes \$11 million of lease receivables related to consolidated VIEs as at January 31, 2010 (\$9 million as at January 31, 2009).

³ This portfolio is being wound down.

Loans and lease receivables – Financing with three airlines represents approximately 43% of the total loans and lease receivables as at January 31, 2010 (three airlines represented 35% as at January 31, 2009). Loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors. The value of the collateral also fluctuates with economic cycles.

Lease receivables consist of the following, before allowance for credit losses, as at January 31:

	2010	2009
Total minimum lease payments	\$ 47	\$ 79
Unearned income	(17)	(22)
Unguaranteed residual value	39	25
	\$ 69	\$ 82

Assets under operating leases – Assets under operating leases were as follows as at January 31:

	2010		2009	
	Cost	Net book value	Cost	Net book value
Pre-owned commercial aircraft	\$ 60	\$ 45	\$ 49	\$ 28
Pre-owned business aircraft	56	53	50	46
	\$116	\$98	\$ 99	\$ 74

Rental income from operating leases and amortization of assets under operating leases amounted to \$5 million and \$12 million, respectively, for fiscal year 2010 (\$9 million and \$15 million, respectively, for fiscal year 2009).

6

INVENTORIES

Inventories were as follows as at January 31:

	2010	2009
Long-term contracts		
Costs incurred and recorded margins	\$ 5,793	\$ 4,503
Less: advances and progress billings	(4,155)	(3,308)
	1,638	1,195
Aerospace programs	2,576	2,850
Finished products ¹	1,054	1,477
	\$ 5,268	\$ 5,522

¹ Finished products include 7 new aircraft not associated with a firm order and 19 pre-owned aircraft, totalling \$274 million as at January 31, 2010 (19 new aircraft and 29 pre-owned aircraft, totalling \$448 million as at January 31, 2009).

Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in BT, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Inventories recognized as cost of sales – The amount of inventories recognized as cost of sales totalled \$15,227 million for fiscal year ended 2010 (\$15,007 million for fiscal year 2009). These amounts include \$78 million of write-down for fiscal year 2010 (\$59 million for fiscal year 2009).

7

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows as at January 31:

	2010		2009	
	Cost	Net book value	Cost	Net book value
Land	\$ 99	\$ 99	\$ 93	\$ 93
Buildings	1,943	899	1,772	837
Equipment	1,149	433	1,085	462
Other	240	212	212	176
	\$ 3,431	\$ 1,643	\$ 3,162	\$ 1,568

Included in the above table are assets under capital lease with a cost and net book value amounting to \$147 million and \$79 million, respectively, as at January 31, 2010 (\$143 million and \$81 million, respectively, as at January 31, 2009).

Also included in the above table are assets under construction amounting to \$88 million as at January 31, 2010 (\$100 million as at January 31, 2009).

Amortization of property, plant and equipment amounted to \$168 million for fiscal year 2010 (\$180 million for fiscal year 2009).

8

INTANGIBLE ASSETS

Intangible assets were as follows as at January 31:

	2010		2009	
	Cost	Net book value	Cost	Net book value
Aerospace program tooling				
Business aircraft	\$ 2,237	\$ 618	\$ 2,074	\$ 572
Commercial aircraft	2,028	822	1,682	603
Licences, patents and trademarks	297	113	281	121
Other	522	143	428	103
	\$ 5,084	\$ 1,696	\$ 4,465	\$ 1,399

Intangible assets capitalized during fiscal year 2010 amounted to \$583 million (\$376 million for fiscal year 2009) of which \$512 million (\$325 million for fiscal year 2009) were capitalized in aerospace program tooling. Of the amount of intangible assets capitalized during fiscal year 2010, \$162 million were acquired and \$421 million were internally generated.

Amortization of intangible assets was as follows for fiscal years:

	2010	2009
Aerospace program tooling	\$ 243	\$ 310
Other	75	50
	\$ 318	\$ 360

9

GOODWILL

Goodwill is mainly related to the DaimlerChrysler Rail Systems GmbH ("Adtranz") acquisition in May 2001. Changes in the goodwill balance were as follows for fiscal years:

	2010	2009
Balance at beginning of year	\$ 2,010	\$ 2,533
Resolution of a tax uncertainty ¹	-	(41)
Effect of foreign currency exchange rate changes	237	(482)
Balance at end of year	\$ 2,247	\$ 2,010

¹ Effective February 1, 2009, the Corporation has adopted Section 1582. As a result, resolution of tax uncertainty related to the acquiree subsequent to the business combination is recognized in the consolidated statement of income rather than as a reduction in goodwill.

The Corporation completed the required annual impairment review during the fourth quarter of fiscal year 2010 and did not identify any impairment.

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OTHER ASSETS

Other assets were as follows as at January 31:

	2010	2009
Investment in securities ¹	\$ 328	\$ 203
Investment in VIEs ²	180	27
Prepaid expenses	179	257
Deferred financing charges	99	65
Servicing fees	48	54
Restricted cash ³	40	85
Investment in companies subject to significant influence ⁴	33	30
Prepayment under an exchange agreement	-	150
Other	99	78
	\$ 1,006	\$ 949

¹ Includes an amount of \$148 million held in an aircraft financing structure to support certain of the Corporation's financial obligations as at January 31, 2010 (\$64 million as at January 31, 2009).

² Includes an investment of \$150 million in replacement of the prepayment under an exchange agreement.

³ Includes \$59 million related to consolidated VIEs as at January 31, 2009 (nil as at January 31, 2010).

⁴ The Corporation has pledged shares in investees subject to significant influence, with a carrying value of \$26 million as at January 31, 2010 (\$20 million as at January 31, 2009). Investment in companies subject to significant influence includes \$9 million of loans as at January 31, 2010 (\$8 million as at January 31, 2009), mostly related to BT.

Letter of credit facilities

The letter of credit facilities and their maturities were as follows as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (fiscal year)
January 31, 2010				
BT facility	\$5,201 ¹	\$3,921	\$1,280	2014 ²
BA facility	600	484	116	2012
PSG facility	900	377	523	2011 ³
	\$6,701	\$4,782	\$1,919	
January 31, 2009				
BT facility	\$ 4,801 ¹	\$ 4,446	\$ 355	2014 ²
Previous BA facility	840	655	185	2012
PSG facility	250	30	220	2010 ³
	\$ 5,891	\$ 5,131	\$ 760	

¹ €3,750 million.

² In December 2011, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2013.

³ The performance security guarantee facility ("PSG facilities") is renewed and extended annually if mutually agreed. In December 2009, the facility was extended to April 2010 to coincide with the release of the Corporation's annual consolidated financial statements, and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

On June 30, 2009, a \$600-million facility agreement was signed with a syndicate of first-quality financial institutions, mainly North American-based, available for the issuance of letters of credit to support BA's operations as well as the general needs of the Corporation, excluding BT, in replacement of the previous BA facility.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$532 million were outstanding under various bilateral agreements as at January 31, 2010 (\$257 million as at January 31, 2009).

We also use numerous bilateral facilities with insurance companies to support BT's operations. An amount of \$937 million was outstanding under such facilities as at January 31, 2010 (\$916 million as at January 31, 2009).

Revolving credit facility

On September 1, 2009, the Corporation entered into a \$500-million two-year unsecured revolving credit facility with a syndicate of commercial banks and other institutions. This facility is available for cash drawings for the general working capital needs of the Corporation, and was undrawn as at January 31, 2010.

Covenants – The Corporation is subject to various financial covenants under its BA and BT letter of credit facilities and its revolving credit facility, which must be met on a quarterly basis. The BA letter of credit and revolving credit facilities include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum debt to EBITDA ratio and a minimum liquidity level all calculated based on an adjusted consolidated basis (i.e. excluding BT). The BT financial covenants require minimum equity and liquidity levels as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics or to the specific terms used in the MD&A.

In addition, the Corporation must maintain a minimum BT liquidity of €600 million at the end of each calendar quarter and a requirement to maintain a minimum BA liquidity of \$500 million at the end of each fiscal quarter. The Corporation must also maintain €404 million (\$560 million) of invested collateral under the BT facility and \$121 million under the BA facility. These conditions were all met as at January 31, 2010.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

Other facilities

In the normal course of its business, BT has set up factoring facilities in Europe to which it can sell, without recourse, qualifying trade receivables. Trade receivables of \$194 million were outstanding under such facilities as at January 31, 2010 (\$18 million as at January 31, 2009). Trade receivables of \$542 million were sold to these facilities during fiscal year 2010.

In addition, BA has set up sale and leaseback facilities to which it can sell pre-owned business aircraft. An amount of \$180 million was outstanding under such facilities as at January 31, 2010 (\$54 million as at January 31, 2009). Aircraft worth \$217 million were sold and leased-back to these facilities during fiscal year 2010.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at January 31:

	2010	2009
Trade accounts payable	\$2,311	\$ 2,243
Accrued liabilities	1,239	1,048
Product warranties	1,040	931
Sales incentives ¹	968	1,001
Payroll-related liabilities	486	438
Income and other taxes	206	113
Severance and other involuntary termination costs	82	43
Interest payable	56	61
Provision for repurchase obligations	–	59
Other	1,039	985
	\$7,427	\$ 6,922

¹ Comprised of provision for credit and residual value guarantees and trade-in commitments, as well as other related provisions and related liabilities in connection with the sale of aircraft (see Note 25 – Commitments and contingencies). The carrying value of related liabilities in connection with the sale of aircraft is \$196 million as at January 31, 2010 (\$190 million as at January 31, 2009). The amount contractually required to be paid for these liabilities is \$228 million as at January 31, 2010 (\$232 million as at January 31, 2009).

Product warranties – Product warranties typically range from one to five years, except for aircraft structural warranties that extend up to 20 years.

Changes in the product warranty provision were as follows for fiscal years 2010 and 2009:

	BA	BT	Total
Balance as at January 31, 2008	\$ 285	\$ 756	\$ 1,041
Current expense	95	279	374
Changes in estimates	–	(63)	(63)
Cash paid	(100)	(202)	(302)
Effect of foreign currency exchange rate changes	–	(119)	(119)
Balance as at January 31, 2009	280	651	931
Current expense	66	378	444
Changes in estimates	–	(94)	(94)
Cash paid	(67)	(239)	(306)
Effect of foreign currency exchange rate changes	–	65	65
Balance as at January 31, 2010	\$ 279	\$ 761	\$ 1,040

LONG-TERM DEBT

Long-term debt was as follows as at January 31:

							2010	2009
	Amount in currency of origin 2010/2009	Currency	Interest rate		After effect of fair value hedges 2010/2009	Maturity	Amount	Amount
			Fixed/ Variable ¹	Contractual 2010/2009 ¹				
Senior notes	679	EUR	Variable	4.53%/7.74%	n/a	Nov. 2013	\$ 933	\$ 858
	385	USD	Fixed	8.00%	3-month Libor + 2.91	Nov. 2014	419	430
	785	EUR	Fixed	7.25%	3-month Libor + 4.83/ 6-month Euribor + 3.36	Nov. 2016	1,139	1,028
Notes	550	USD	Fixed	6.75%	3-month Libor + 2.28	May 2012	597	587
	500	USD	Fixed	6.30%	3-month Libor + 1.60	May 2014	550	551
	250	USD	Fixed	7.45%	n/a	May 2034	247	247
Debentures	150	CAD	Fixed	7.35%	n/a	Dec. 2026	139	120
Other ²	138/131 ³	Various	Fix./var.	7.42%/7.21%	n/a	2011-2027	138	131
							\$4,162	\$3,952

¹ For variable-rate debt, the interest rate represents the average rate for the fiscal year. All interests on long-term debt are payable semi-annually, except for the Senior note due in November 2013, for which they are payable quarterly, and for the other debts for which the timing of interest payments is variable.

² Includes \$76 million relating to obligations under capital leases as at January 31, 2010 (\$66 million as at January 31, 2009).

³ Amounts are expressed in U.S. dollars.

n/a: Not applicable

All long-term debt items rank pari-passu and are unsecured.

The carrying value of long-term debt includes principal repayments, transaction costs and the basis adjustments related to derivatives designated in a fair value hedge relationships. The following table presents the principal repayment of the long-term debt:

	Debt	Capital leases	Total
2011	\$ 3	\$ 8	\$ 11
2012	3	10	13
2013	554	10	564
2014	943	3	946
2015	888	3	891
Thereafter	1,528	42	1,570
	\$3,919	\$ 76	\$3,995

In addition, refer to Note 30 – Subsequent event for the issuance and repurchase of Notes subsequent to year-end.

Preferred shares

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2010 and 2009:

12,000,000 SERIES 2 CUMULATIVE REDEEMABLE PREFERRED SHARES

Redemption:	Redeemable, at the Corporation's option, at \$25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than \$24.90 Cdn per share or more than \$25.10 Cdn per share.

12,000,000 SERIES 3 CUMULATIVE REDEEMABLE PREFERRED SHARES

Redemption:	Redeemable, at the Corporation's option, at \$25.00 Cdn per share on August 1, 2012, and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012, and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007, and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or \$1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.32919 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

14 SHARE CAPITAL (CONT'D)

9,400,000 SERIES 4 CUMULATIVE REDEEMABLE PREFERRED SHARES	
Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at \$25.50 Cdn if redeemed on or after March 31, 2009, but prior to March 31, 2010; \$25.25 Cdn if redeemed on or after March 31, 2010, but prior to March 31, 2011; and \$25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of \$2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or \$1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.390625 Cdn per share.

Common shares

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2010 and 2009:

1,892,000,000 CLASS A SHARES (MULTIPLE VOTING)	
Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

1,892,000,000 CLASS B SHARES (SUBORDINATE VOTING)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of \$0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of January, May, July and October of each year at a rate of \$0.000390625 Cdn per share, if declared.

On June 3, 2008, the Board of Directors of the Corporation authorized the reinstatement of the payment of a quarterly dividend on each Class A Shares (Multiple Voting) and each Class B Shares (Subordinate Voting) of the Corporation. As a result, if and when declared payable by the Board of Directors, holders of these shares are entitled to a quarterly dividend of \$0.025 Cdn per share, in addition, to the quarterly preferential dividend of \$0.000390625 Cdn for class B Shares mentioned above.

In connection with the performance share unit plan, the Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase 7,068,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for \$21 million during fiscal year 2010 (6,942,000 Class B Shares for \$54 million during fiscal year 2009) (see Note 15 – Share-based plans).

Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 61,854,596 were available for issuance under these share option plans as at January 31, 2010.

Current share option plan – Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options terminate no later than seven years after the grant date.

The number of options issued and outstanding under the amended share option plan has varied as follows for fiscal year 2010:

	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	–	–
Granted	2,620,000	3.45
Cancelled	(40,000)	3.45
Balance at end of year	2,580,000	3.45
Options exercisable at end of year	–	–

Performance share option plan – For options issued to key employees after May 27, 2003 and before June 1, 2009, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective. The options terminate no later than seven years after the grant date. As at January 31, 2010, target prices ranged between \$4 Cdn and \$11 Cdn.

The summarized information on the performance share option plan is as follows as at January 31, 2010:

				Issued and outstanding	Exercisable	
Exercise price range (Cdn\$)	Number of options	Weighted-average target price (Cdn\$)	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
2 to 4	11,711,425	5.85	2.29	3.18	7,421,363	2.95
4 to 6	13,466,650	9.01	2.54	4.80	2,622,150	5.50
6 to 8	449,000	9.60	1.94	7.05	112,250	7.05
8 to 10	5,627,000	8.00	5.36	8.53	1,406,750	8.53
	31,254,075				11,562,513	

15 SHARE-BASED PLANS (CONT'D)

The number of options has varied as follows for fiscal years:

	2010		2009	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	33,817,321	4.85	31,698,625	3.99
Granted	10,000	3.48	6,090,000	8.48
Exercised	(646,746)	2.83	(2,167,304)	3.03
Cancelled	(1,647,250)	4.84	(1,604,000)	4.26
Expired	(279,250)	3.91	(200,000)	4.16
Balance at end of year	31,254,075	4.90	33,817,321	4.85
Options exercisable at end of year	11,562,513	4.25	6,650,634	3.54

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options are all vested, and terminate no later than 10 years after the grant date.

The summarized information on these options is as follows as at January 31, 2010:

Issued, outstanding and exercisable			
Exercise price range (Cdn\$)	Number of options	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)
12 to 15	2,143,000	2.15	14.58
15 to 25	3,024,000	0.70	20.45
	5,167,000		

The number of options has varied as follows for fiscal years:

	2010		2009	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	10,488,500	14.75	11,696,500	14.59
Cancelled	(419,500)	17.21	(506,000)	15.01
Expired	(4,902,000)	11.10	(702,000)	11.93
Balance at end of year	5,167,000	18.01	10,488,500	14.75
Options exercisable at end of year	5,167,000	18.01	10,488,500	14.75

15 SHARE-BASED PLANS (CONT'D)

Stock-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2010 was \$1.15 per option (\$3.11 per option during fiscal year 2009). The fair value of each option granted was determined using a Black-Scholes option-pricing model, modified to incorporate target prices related to the performance share option plan in the fair value calculation for options issued before June 1, 2009, when appropriate, the share price at the grant date, and the following weighted-average assumptions for fiscal years:

	2010	2009
Risk-free interest rate	2.82%	3.57%
Expected life	5 years	5 years
Expected volatility in market price of shares	50.79%	48.03%
Expected dividend yield	2.10%	1.66%

A compensation expense of \$10 million was recorded during fiscal year 2010 with respect to share option plans (\$14 million during fiscal year 2009).

PSU and DSU plans

During fiscal year 2006, the Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). On June 3, 2009, the Board of Directors of the Corporation approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During fiscal year 2010, a combined total of 6,712,000 PSUs and DSUs were authorized for issuance (6,265,000 PSUs during fiscal year 2009).

The number of PSUs and DSUs has varied as follows for fiscal years:

	2010		2009	
	PSU	DSU	PSU	DSU
Balance at beginning of year	15,006,293	–	13,696,996	–
Granted	5,059,700	1,164,000	5,695,000	–
Performance adjustment	1,874,374	–	969,715	–
Exercised	(5,623,122)	–	(4,561,241)	–
Cancelled	(428,978)	(40,000)	(794,177)	–
Balance at end of year	15,888,267	1,124,000	15,006,293	–

DSUs and PSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested DSUs and PSUs ranges from 70% to 150%. If the financial performance threshold of PSUs and DSUs are met, they will vest at the following date:

- for grants during fiscal year 2010, June 9, 2012;
- for grants during fiscal year 2009, June 10, 2011; and
- for grants during fiscal year 2008, June 4, 2010.

The Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see Note 14 – Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSU become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of \$36 million was recorded during fiscal year 2010 with respect to the PSU and DSU plans (\$37 million during fiscal year 2009).

Employee share purchase plan

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary to a yearly maximum of \$30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to \$5 million for fiscal years 2010 and 2009. Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

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ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the AOCI were as follows for fiscal years 2010 and 2009:

	AFS financial assets	Cash flow hedges	CTA	Total
Balance as at January 31, 2008	\$ 3	\$ 111	\$ 197	\$ 311
Change during the year	(20)	(566)	(526)	(1,112)
Balance as at January 31, 2009	(17)	(455)	(329)	(801)
Change during the year	20	380	212	612
Balance as at January 31, 2010	\$ 3	\$ (75)	\$ (117)	\$ (189)

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OTHER INCOME

Other income was as follows for fiscal years:

	2010	2009
Severance and other involuntary termination costs (including changes in estimates and capacity adjustments)	\$ 100	\$ 46
Net loss (gain) on financial instruments ¹	(56)	6
Loss (gain) related to disposal of businesses	(20)	23
Gain on disposal of property, plant and equipment	(19)	(26)
Foreign exchange gains	(6)	(75)
Loss (gain) from equity accounted investees	(4)	2
Settlement of claims	–	(28)
Other	(21)	11
	\$ (26)	\$ (41)

¹ Net loss (gain) on certain financial instruments classified as HFT, including foreign exchange embedded derivatives and financing rate commitments.

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FINANCING INCOME AND FINANCING EXPENSE

Financing income and financing expense were as follows for fiscal years:

	2010	2009
Financing income		
Loans and lease receivables – after effect of hedges	\$ (31)	\$ (43)
Cash and cash equivalents	(26)	(143)
Net gain on financial instruments ¹	(17)	–
Invested collateral	(14)	(51)
Gain on long-term debt repayment	–	(22)
Other	(8)	(11)
	\$ (96)²	\$ (270)²
Financing expense		
Interest on long-term debt – after effect of hedges	\$ 223	\$ 307
Accretion expense on certain sales incentives	36	45
Net loss on financial instruments ¹	–	27
Write-off of deferred costs ³	–	20
Other	20	9
	\$ 279⁴	\$ 408⁴

¹ Net gain/loss on certain financial instruments required to be classified as HFT, including certain call options on long-term debt.

² Of which \$11 million represents the interest income calculated using the effective interest method for financial assets classified as L&R for fiscal year 2010 (\$22 million for fiscal year 2009).

³ Related to the previous BT letter of credit facility.

⁴ Of which \$236 million represents the interest expense calculated using the effective interest method for financial liabilities classified as other than HFT for fiscal year 2010 (\$339 million for fiscal year 2009).

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INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax assets and liabilities were as follows as at January 31:

	2010	2009
Operating losses carried forward	\$ 1,226	\$ 1,049
Inventories	534	851
Advances and progress billings in excess of related long-term contract costs and advances on aerospace programs	409	513
Warranty and other provisions	330	(9)
Property, plant and equipment	(344)	(267)
Intangible assets	39	41
Derivative financial instruments, net	27	165
Accrued benefit liabilities	4	18
Other	2	1
	2,227	2,362
Valuation allowance	(1,126)	(1,146)
Net amount	\$ 1,101	\$ 1,216

19 INCOME TAXES (CONT'D)

The net amount of deferred income taxes is composed as follows as at January 31:

	2010	2009
Deferred income taxes assets	\$ 1,166	\$ 1,216
Deferred income taxes liabilities	(65)	—
	\$ 1,101	\$ 1,216

Details of income tax expense were as follows for fiscal years:

	2010	2009
Current income taxes		
Canada	\$ 127	\$ 88
Foreign	90	108
	217	196
Deferred income taxes		
Recognition of previously unrecognized tax benefits	(181)	(264)
Write-down of deferred income tax assets	15	19
Non-recognition of tax benefits and temporary differences	146	306
Effect of substantively enacted income tax rate changes	11	8
	(9)	69
Income tax expense	\$ 208	\$ 265

The reconciliation of income taxes, computed at the Canadian statutory rates of 31.29% in fiscal year 2010 and 31.54% in fiscal year 2009, to income tax expense was as follows for fiscal years:

	2010	2009
Income tax expense at statutory rate	\$ 286	\$ 407
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax benefits	(181)	(264)
Write-down of deferred income tax assets	15	19
Non-recognition of tax benefits related to losses and temporary differences	83	110
Effect of substantively enacted income tax rate changes	11	8
Permanent differences	18	41
Income tax rates differential of foreign investees	(21)	(53)
Other	(3)	(3)
Income tax expense	\$ 208	\$ 265

The net operating losses carried forward and temporary differences (which are available to reduce future taxable income of certain subsidiaries) for which a valuation allowance has been recognized amounted to \$4,039 million as at January 31, 2010. Of these amounts, \$1,767 million relate to the Corporation's operations in Germany, where a minimum income tax is payable on 40% of taxable income. These amounts have essentially no expiration dates.

In addition, the Corporation has \$261 million of available net capital losses, most of which can be carried forward indefinitely. Net capital losses can only be used against future taxable capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no income taxes have been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

20

EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for fiscal years:

(Number of shares, stock options, PSUs and DSUs, in thousands)	2010	2009
Net income attributable to shareholders of Bombardier Inc.	\$ 698	\$ 1,008
Preferred share dividends, net of tax	(21)	(27)
Net income attributable to common shareholders of Bombardier Inc.	\$ 677	\$ 981
Weighted-average basic number of common shares outstanding	1,729,810	1,730,545
Net effect of stock options, PSUs and DSUs	25,223	23,897
Weighted-average diluted number of common shares outstanding	1,755,033	1,754,442
EPS (in dollars):		
Basic	\$0.39	\$ 0.57
Diluted	\$0.39	\$ 0.56

The effect of the exercise of stock options was included in the calculation of diluted EPS in the above table, except for 30,761,517 stock options for fiscal year 2010 (25,427,192 for fiscal year 2009) since the average market value of the underlying shares was lower than the exercise price or because the predetermined target market price thresholds for the Corporation's Class B Shares (Subordinate Voting) had not been met.

21

NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows for fiscal years:

	2010	2009
Receivables	\$ 167	\$ (249)
Aircraft financing	(61)	125
Inventories	466	(1,211)
Fractional ownership deferred costs and revenues, net	(67)	(7)
Derivative financial instruments, net	(7)	71
Accounts payable and accrued liabilities	143	778
Advances and progress billings in excess of related long-term contract costs	(401)	(263)
Advances on aerospace programs	(899)	88
Accrued benefit liabilities, net	(71)	(85)
Other	59	(11)
	\$ (671)	\$ (764)

Fair value amounts disclosed in these Consolidated Financial Statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the Corporation has immediate access. However, there is no active market for most of the Corporation's financial instruments. In the absence of an active market, the Corporation determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, credit spreads, default probability, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

Methods and assumptions

The methods and assumptions used to measure the fair value are as follows:

Financial instruments whose carrying value approximates fair value – The fair values of receivables, commercial aircraft loans and lease receivables, business aircraft loans, restricted cash, trade account payables and accrued liabilities, interest and certain payroll-related liabilities, measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because the terms and conditions of loans or lease receivables are comparable to current market terms and conditions for similar items.

Invested collateral – The fair value is determined using external quotations when available. When not available, discounted cash flow analyses are used based on both market data and internal assumptions. The market data used for the discounted cash flow analysis relate to yield curves and credit spreads.

Commercial aircraft loans and lease receivables designated as HFT – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using market data for interest rates, published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumption to take into account factors that market participants would consider when pricing these financial assets, when relevant. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves obtained from independent appraisers adjusted to reflect the specific factors of the current aircraft market.

Related liabilities in connection with the sale of aircraft – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of related liabilities incurred in connection with the sale of commercial aircraft. The fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating.

Derivative financial instruments – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts, i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts, i.e. taking into consideration the Corporations' credit risk, at the reporting dates. The Corporation uses discounted cash flows analyses and public quotations to estimate the fair value of forward agreements and interest-rate derivatives. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rates.

The Corporation uses an option-pricing model adjusted for aircraft financing specific factors to estimate the fair value of financing rate commitments. The fair value is calculated using market data such as interest rates, credit spreads, published credit ratings, when available, and default probabilities. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves obtained from independent appraisers adjusted to reflect the specific factors of the current aircraft market.

The Corporation uses an option-adjusted spread model to estimate the fair value of call feature on long-term debt, using market data such as interest-rate swap curves and external quotations.

Long-term debt – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Fair value hierarchy

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows as at January 31, 2010:

	Total	Level 1	Level 2	Level 3
Financial assets				
Invested collateral	\$ 682	\$ 44	\$ 638	\$ -
Commercial aircraft loans and lease receivables	280	-	-	280
Derivative financial instruments ¹	482	-	482	-
Servicing fees	48	-	-	48
Investment in securities ²	324	241	82	1
Investment in VIEs	180	-	150	30
Total	\$1,996	\$285	\$1,352	\$359
Financial liabilities				
Related liabilities	\$ 196	\$ -	\$ -	\$ 196
Derivative financial instruments ¹	429	-	420	9
Total	\$ 625	\$ -	\$ 420	\$205

¹ Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and embedded derivatives.

² Excludes \$4 million of investments held at cost.

Changes in Level 3 financial instruments were as follows for fiscal year 2010:

	Commercial aircraft loans and lease receivables	Servicing fees	Investment in VIEs	Investment in securities	Related liabilities	Embedded derivatives
Balance as at January 31, 2009	\$ 240	\$ 54	\$ 27	\$ 2	\$ (190)	\$ -
Gains (losses) included in net income	94	(5)	3	(1)	(48)	2
Issuances	-	-	-	-	(26)	(11)
Settlements	(54)	(1)	-	-	68	-
Balance as at January 31, 2010	\$280	\$48	\$30	\$1	\$ (196)	\$ (9)

Sensitivity to selected changes of assumptions for Level 3 hierarchy

When measuring Level 3 financial instruments at fair value, some assumptions may not be derived from an observable market. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at:

January 31, 2010			
Impact on EBT (gain (loss))	Change in carrying value	Change of assumption	
	Change in fair value recognized in net income during fiscal year 2010	Downgrade the credit rating of unrated customers by 1 notch	Increase the liquidity risk by 100 bps
Commercial aircraft loans and lease receivables	\$ 67	\$ (8)	\$ (23)

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest-rate risk.

Credit risk

The Corporation is exposed to credit risk through its normal treasury activities on its derivative instruments, invested collateral and other investing activities. The Corporation is also exposed to credit risk through its trade receivable arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Investment Management Policy ("Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and highly-rated market funds based on pre-established limits per financial institution.

Credit risks arising from the Corporation's normal commercial activities, lending activities and indirect financing support are managed and controlled by the two manufacturing segments. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessments and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

Maximum exposure to credit risk – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in Note 3 – Financial Instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows:

	January 31, 2010		January 31, 2009	
	HFT	AFS	HFT	AFS
Aircraft financing	\$248	n/a	\$216	n/a
Derivative financial instruments ¹	\$ 52	n/a	\$106	n/a
Other assets	\$198	\$279	\$204	\$166

¹ Comprised of derivative financial instruments HFT, excluding embedded derivatives.

Credit quality – The credit quality, using external and internal credit rating system, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables and aircraft financing. BA receivables are not externally or internally quoted, however the credit quality of customers are dynamically reviewed and are based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft financing are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft financing portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to Note 25 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

23 FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity risk

The Corporation manages the liquidity risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness (including off-balance sheet indebtedness), access to capital markets, the level of customer advances and progress billings in excess of related long-term contract costs, working capital requirements and the funding of product developments. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

Maturity analysis – The maturity analysis of financial assets and liabilities (undiscounted cash flows before giving effect to the related hedging instruments), excluding derivatives, was as follows as at January 31, 2010:

	Carrying amount	Undiscounted cash flows						Total
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	
Cash and cash equivalents	\$ 3,372	\$ 3,372	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 3,372
Invested collateral	682	–	121	561	–	–	–	682
Trade receivables and other receivables	1,766	1,722	32	12	–	–	–	1,766
Aircraft financing	375	25	40	27	102	310	–	504
Other financial assets	671	156	92	6	90	372	45	761
Assets	\$ 6,866	\$ 5,275	\$ 285	\$ 606	\$ 192	\$ 682	\$ 45	\$ 7,085
Trade and other payables	\$ 3,922	\$ 3,498	\$ 148	\$ 83	\$ 95	\$ 25	\$100	\$ 3,949
Long-term debt Principal	4,162	11	577	1,837	1,112	458	–	3,995
Interest	–	254	507	394	297	388	–	1,840
Liabilities	\$ 8,084	\$ 3,763	\$ 1,232	\$ 2,314	\$ 1,504	\$ 871	\$100	\$ 9,784
Net amount		\$ 1,512	\$ (947)	\$ (1,708)	\$ (1,312)	\$ (189)	\$ (55)	\$ (2,699)

The maturity analysis of derivative financial instruments is presented in Note 3 – Financial instruments.

Market risk

Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks, in the ordinary course of business, through its international operations in particular to the Canadian dollar, pound sterling and Euro. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's Consolidated Financial Statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions whose end result is to create an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments' management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, who has the responsibility to execute the hedge transactions in accordance with the policy requirements.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in currency. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments are also mitigating foreign currency risks by maximizing transactions in the functional currency of each operation such as material procurement, sale contracts and financing activities.

23 FINANCIAL RISK MANAGEMENT (CONT'D)

In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item.

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded on its balance sheet. The following impact on income is before giving effect to hedge relationships.

Gain (loss)	Effect on pre-tax income					
	Variation in the foreign currency as at January 31, 2010	CAD/USD	GBP/USD	USD/EUR	EUR/SEK	Other
For fiscal year 2010	+10%	\$ (5)	\$ (6)	\$ -	\$ 2	\$(13)

The following impact on OCI is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

Gain (loss)	Effect on OCI before income taxes					
	Variation in the foreign currency as at January 31, 2010	CAD/USD	GBP/USD	USD/EUR	EUR/SEK	Other
For fiscal year 2010	+10%	\$183	\$74	\$ (49)	\$(41)	\$ 29

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities including long-term debt synthetically converted to variable interest rate (see Note 13 – Long-term debt). The Corporation is also exposed to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer in the future. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, by matching asset and liability positions, including the use of financial instruments, such as interest-rate swap agreements, to align asset/liability exposures. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements, cross-currency interest rate swap agreements and interest rate cap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain commercial aircraft loans and lease receivables, investments in securities, invested collateral, related liabilities in connection with the sale of aircraft and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rate movements.

Sensitivity analysis

The interest rate risk primarily related to financial instruments carried at fair value such as certain aircraft loans and lease receivables, investment in securities, invested collateral, related liabilities in connection with the sale of aircraft and certain embedded derivatives. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, as of January 31, 2010 and 2009, the impact on income before income taxes would have been a negative adjustment of \$48 million for fiscal year 2010 (\$40 million for fiscal year 2009).

For interest-rate derivative financial instruments not designated in a hedge relationship, an increase of 100-basis points in interest rates as of January 31, 2010 and 2009 would have had no significant impact on net income.

Defined benefit pension plans – The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Salaried employees' defined benefit pension plans are generally based on salary and years of service. Some of the hourly employees' defined benefit pension plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuations for funding purposes of the Corporation's funded pension plans, excluding the United Kingdom ("U.K.") plans, were prepared with effective dates ranging between December 31, 2007, and December 31, 2008. In the U.K., the most recent actuarial valuations for funding purposes were prepared with effective dates ranging between December 31, 2006, and December 31, 2008. The next effective valuation date for funding purposes for most of the Corporation's funded pension plans is December 31, 2009.

Benefits other than pension – The Corporation provides post-employment and other post-retirement benefit plans. These benefit plans consist essentially of self-insured long-term disability plans in Canada and post-retirement healthcare coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets and liabilities recognized in the consolidated balance sheets as at January 31:

AMOUNTS RECOGNIZED						
	2010			2009		
	Canada	Foreign	Total	Canada	Foreign	Total
Accrued benefit assets						
Pension plans	\$ 535	\$ 535	\$ 1,070	\$ 476	\$ 450	\$ 926
Accrued benefit liabilities						
Pension plans	\$ (64)	\$ (668)	\$ (732)	\$ (60)	\$ (595)	\$ (655)
Benefits other than pension	(303)	(49)	(352)	(290)	(47)	(337)
	\$ (367)	\$ (717)	\$ (1,084)	\$ (350)	\$ (642)	\$ (992)

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year-ends):

ACTUARIAL ASSUMPTIONS								
	2010				2009			
			Pension benefits	Other benefits			Pension benefits	Other benefits
(in percentage)	Canada	Foreign	Total		Canada	Foreign	Total	
Projected benefit obligation								
Discount rate	6.00	5.64	5.79	5.99	6.60	5.62	6.01	6.50
Rate of compensation increase	3.50	3.89	3.74	3.53	3.72	3.92	3.85	3.69
Benefit cost								
Discount rate	6.60	5.62	6.01	6.50	5.20	5.57	5.39	5.30
Expected long-term rate of return on plan assets	6.99	6.98	6.98	n/a	7.22	7.41	7.33	n/a
Rate of compensation increase	3.72	3.92	3.85	3.69	3.73	3.92	3.84	3.75

n/a: Not applicable

24 EMPLOYEE FUTURE BENEFITS (CONT'D)

As at December 31, 2009, the healthcare cost trend rate for benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 8.5% and to decrease to 5% by fiscal year 2018 and then remain at that level for all participants. A one percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One percentage-point increase	One percentage-point decrease
Effect on projected benefit obligation	\$ 33	\$ (29)
Effect on the total service and interest cost	\$ 3	\$ (2)

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31, measurement date preceding the fiscal year-ends, and its allocation by major countries:

PROJECTED BENEFIT OBLIGATION								
				2010			2009	
				Pension benefits	Other benefits		Pension benefits	Other benefits
	Canada	Foreign	Total			Canada	Foreign	Total
Obligation at beginning of the year	\$2,141	\$3,235	\$5,376	\$299		\$3,103	\$4,078	\$7,181
Interest cost	159	204	363	20		154	219	373
Actuarial loss (gain)	244	62	306	26		(594)	(52)	(646)
Current service cost	67	105	172	8		100	118	218
Plan amendments	35	7	42	(3)		34	–	34
Plan participants' contributions	20	16	36	–		23	17	40
Benefits paid	(108)	(140)	(248)	(20)		(124)	(155)	(279)
Curtailment	(19)	1	(18)	(7)		–	–	–
Settlement	–	(8)	(8)	–		(5)	–	(5)
Effect of exchange rate changes	376	353	729	46		(550)	(990)	(1,540)
Obligation at end of the year	\$2,915	\$3,835	\$6,750	\$369		\$2,141	\$3,235	\$5,376
Canada			\$2,915	\$323				\$2,141
U.K.			2,438	10				1,975
U.S.			576	30				515
Germany			401	–				358
Switzerland			237	–				214
Other			183	6				173
			\$6,750	\$369				\$5,376
								\$299

24 EMPLOYEE FUTURE BENEFITS (CONT'D)

The following table presents the changes in fair value of plan assets for defined benefit pension plans for the 12-month period ended December 31, measurement date preceding the fiscal year-ends, and its allocation by major countries:

PENSION PLAN ASSETS						
	2010			2009		
	Canada	Foreign	Total	Canada	Foreign	Total
Fair value at beginning of the year	\$ 1,806	\$ 2,027	\$ 3,833	\$ 2,644	\$ 3,357	\$ 6,001
Actual return on plan assets	324	429	753	(416)	(647)	(1,063)
Employer contributions	134	184	318	154	178	332
Plan participants' contributions	20	16	36	23	17	40
Benefits paid	(108)	(140)	(248)	(124)	(155)	(279)
Settlement	-	(8)	(8)	(5)	-	(5)
Effect of exchange rate changes	322	230	552	(470)	(723)	(1,193)
Fair value at end of the year	\$ 2,498	\$ 2,738	\$ 5,236	\$ 1,806	\$ 2,027	\$ 3,833
Canada			\$ 2,498			\$ 1,806
U.K.			2,093			1,497
U.S.			427			358
Switzerland			186			146
Other			32			26
			\$ 5,236			\$ 3,833

The reconciliation of the funded status of the pension plans and of benefit plans other than pensions to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

FUNDED STATUS								
	2010				2009			
			Pension benefits	Other benefits			Pension benefits	Other benefits
	Canada	Foreign	Total		Canada	Foreign	Total	
Fair value of plan assets	\$ 2,498	\$ 2,738	\$ 5,236	\$ -	\$ 1,806	\$ 2,027	\$ 3,833	\$ -
Projected benefit obligation	(2,915)	(3,835)	(6,750)	(369)	(2,141)	(3,235)	(5,376)	(299)
Funded status - deficit	(417)	(1,097)	(1,514)	(369)	(335)	(1,208)	(1,543)	(299)
Unamortized net actuarial loss	695	1,069	1,764	62	570	1,187	1,757	12
Unamortized past service costs	184	(109)	75	(46)	175	(134)	41	(50)
Contributions paid in January	9	5	14	1	6	10	16	-
Other	-	(1)	(1)	-	-	-	-	-
Accrued benefit assets (liabilities)	\$ 471	\$ (133)	\$ 338	\$ (352)	\$ 416	\$ (145)	\$ 271	\$ (337)

24 EMPLOYEE FUTURE BENEFITS (CONT'D)

Included in the previous table are plans with projected benefit obligation in excess of plan assets as follows:

PROJECTED BENEFIT OBLIGATION IN EXCESS OF PLAN ASSETS						
	2010			2009		
	Canada	Foreign	Total	Canada	Foreign	Total
Fair value of plan assets	\$ 1,484	\$ 2,602	\$ 4,086	\$ 1,047	\$ 2,023	\$ 3,070
Projected benefit obligation	(2,041)	(3,706)	(5,747)	(1,505)	(3,233)	(4,738)
	\$ (557)	\$ (1,104)	\$ (1,661)	\$ (458)	\$ (1,210)	\$ (1,668)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December 31 measurement date:

PLAN ASSETS			
	Target allocation	Actual allocation	Actual allocation
Asset category	2010	2009	2008
Cash and cash equivalents	2%	5%	4%
Publicly traded equity securities	57%	55%	56%
Publicly traded fixed-income securities	36%	35%	36%
Global infrastructure and real estate assets	5%	5%	4%

As at December 31, 2009 and 2008, the publicly traded equity securities did not include any of the Corporation's shares.

24 EMPLOYEE FUTURE BENEFITS (CONT'D)

The following table provides the components of the benefit cost for fiscal years:

BENEFIT COST								
	2010				2009			
	Pension benefits			Other benefits	Pension benefits			Other benefits
	Canada	Foreign	Total		Canada	Foreign	Total	
Current service cost	\$ 67	\$ 105	\$ 172	\$ 8	\$ 100	\$ 118	\$ 218	\$ 12
Interest cost	159	204	363	20	154	219	373	20
Actual return on plan assets	(324)	(429)	(753)	–	416	647	1,063	–
Actuarial (gain) loss	244	62	306	26	(594)	(52)	(646)	(76)
Plan amendments	35	7	42	(3)	34	–	34	1
Curtailment	12	(5)	7	(4)	–	–	–	–
Other	–	–	–	–	1	–	1	–
Benefit cost (revenue) before adjustments to recognize the long-term nature of the plans	193	(56)	137	47	111	932	1,043	(43)
Difference between actual and expected return on plan assets	152	237	389	–	(596)	(879)	(1,475)	–
Difference between actual actuarial loss and the amount recognized	(240)	(17)	(257)	(15)	621	89	710	76
Difference between plan amendments and amounts recognized	(20)	(16)	(36)	(1)	(20)	(10)	(30)	(6)
Other	–	1	1	–	–	–	–	–
Benefit cost recognized	\$ 85	\$ 149	\$ 234	\$ 31	\$ 116	\$ 132	\$ 248	\$ 27

Defined contribution pension plans

The Corporation also offers Canadian and foreign defined contribution pension plans covering a portion of its employees, mainly in BA. Defined contribution plan formulas are based on a percentage of salary.

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to \$41 million for fiscal year 2010 (\$38 million for fiscal year 2009).

COMMITMENTS AND CONTINGENCIES

In relation to the sale of commercial aircraft and related financing commitments, the Corporation enters into various sale support arrangements including credit and residual value guarantees and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table, in addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements. Some of these off-balance sheet risks are also included in Note 26 – Variable interest entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

The table below presents the maximum potential exposure for each major group of exposure, as at January 31:

	2010	2009
Aircraft sales		
Credit (a)	\$1,524	\$1,572
Residual value (a)	2,425	2,606
Mutually exclusive exposure ¹	(894)	(954)
Total credit and residual value exposure	\$3,055	\$3,224
Trade-in commitments (b)	761	1,095
Conditional repurchase obligations (c)	599	698
Other²		
Credit and residual value (f)	157	150
Performance guarantees (g)	44	60

1 Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

2 The Corporation has also provided other guarantees (see section h) below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to \$536 million as at January 31, 2010 (\$538 million as at January 31, 2009) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third-party evaluations adjusted to reflect specific factors of the current aircraft market, and the anticipated proceeds from other assets covering such exposures. In addition, related liabilities, which would be extinguished in the event of credit default by certain customers, amounted to \$196 million as at January 31, 2010 (\$190 million as at January 31, 2009). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the underlying aircraft and related liabilities.

Aircraft sales

a) Credit and residual value guarantees – The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the re-marketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 62% of the total maximum credit risk as at January 31, 2010.

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, as at January 31, 2010, and the period in which they can be exercised:

Less than 1 year	\$ 35
From 1 to 5 years	634
From 5 to 10 years	1,415
From 10 to 15 years	341
	\$2,425

25 COMMITMENTS AND CONTINGENCIES (CONT'D)

b) Trade-in commitments – In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows as at January 31, 2010:

Less than 1 year	\$377
From 1 to 3 years	384
	\$761

c) Conditional repurchase obligations – In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at January 31, 2010:

Less than 1 year	\$524
From 1 to 3 years	40
Thereafter	35
	\$599

d) Fractional ownership put options – Under the North American *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled \$598 million as at January 31, 2010 (\$813 million as at January 31, 2009). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

e) Financing commitments – The Corporation is committed to arrange financing, in relation to the future sale of aircraft scheduled for delivery through fiscal year 2012. The Corporation's total financing commitment amounted to \$142 million as at January 31, 2010 (\$770 million as at January 31, 2009). In connection with these commitments, the Corporation has provided credit spread guarantees. The recorded fair value of these guarantees amounted to \$9 million as at January 31, 2010. Such exposures from our financing rate commitments are mitigated by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from our commitment.

Other guarantees

f) Credit and residual value guarantees – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to \$47 million as at January 31, 2010 (\$47 million as at January 31, 2009). This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements, amounting to \$110 million as at January 31, 2010 (\$103 million as at January 31, 2009), in BT. These guarantees are mainly exercisable in 2013.

g) Performance guarantees – In certain projects carried out through consortia or other partnership vehicles in BT, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other partners. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to \$42 million as at January 31, 2010 (\$39 million as at January 31, 2009), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure would amount to \$2 million as at January 31, 2010 (\$21 million as at January 31, 2009), assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

h) Other – In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

25 COMMITMENTS AND CONTINGENCIES (CONT'D)

Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. In addition, the Corporation concluded third-party sale and leaseback transactions relating to pre-owned aircraft and other equipment. The related minimum lease payments for the next five fiscal years and thereafter are as follows:

	Buildings and equipment	Aircraft	Residual value guarantees	Total
2011	\$ 93	\$ 25	\$ 7	\$ 125
2012	78	20	101	199
2013	57	4	–	61
2014	50	2	–	52
2015	62	–	–	62
Thereafter	193	–	37	230
	\$533	\$ 51	\$ 145	\$ 729

Total minimum lease payments include \$157 million and \$17 million for the sale and leaseback of pre-owned aircraft and equipment, respectively. Rent expense was \$134 million for fiscal year 2010 (\$116 million for fiscal year 2009).

Other commitments

The Corporation has commitments under agreements to outsource a portion of its information technology function, as well as the logistics for the centrally located spare parts warehouses in BA. Agreements that are cancellable without substantial penalties are excluded from the table below. The related minimum payments for the next five fiscal years and thereafter are as follows:

2011	\$ 40
2012	27
2013	29
2014	27
2015	26
Thereafter	166
	\$315

The Corporation also has purchase obligations under various agreements, made in the normal course of business.

The Corporation receives government financial support from various levels of government related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. The estimated remaining undiscounted maximum amount repayable under these programs, mostly based on future deliveries of aircraft, amounted to \$404 million as at January 31, 2010 (\$395 million as at January 31, 2009).

In connection with the CSeries family of aircraft program, \$121 million of contingently repayable investments were received for fiscal year 2010. Of these amounts, \$37 million was recorded as a reduction of R&D expense for fiscal year 2010, with the remaining \$84 million recorded against intangible assets.

Litigation

In the normal course of operations, the Corporation is a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings pending as at January 31, 2010, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

The following table summarizes by segment the VIEs in which the Corporation had a significant variable interest as at January 31:

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
BA				
Financing structures related to the sale of regional aircraft	\$6,537	\$3,994	\$6,369	\$3,555
BT				
Partnership arrangements	1,403	1,319	1,094	1,015
Sale support guarantee	372	366	352	337
Cash collateral accounts	-	-	59	59
	8,312	5,679	7,874	4,966
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	10	-	9	-
Cash collateral accounts	-	-	59	59
	10	-	68	59
Assets and liabilities of non-consolidated VIEs	\$8,302	\$5,679	\$7,806	\$4,907

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is generally excluded from the computation of the Corporation's financial covenant ratios.

BA

Financing structures related to the sale of regional aircraft – The Corporation has provided credit and/or residual value guarantees to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs' long-term debt. The Corporation's variable interests in these SPEs are in the form of credit and residual value guarantees, subordinated debt and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only one of them. For all other SPEs, consolidation is not appropriate under AcG-15. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was \$2.0 billion, of which \$572 million of provisions and related liabilities were available to cover the Corporation's exposure as at January 31, 2010 (\$2.2 billion and \$584 million respectively as at January 31, 2009). The Corporation's maximum exposure under these guarantees is presented in Note 25 – Commitments and contingencies.

BT

Partnership arrangements – The Corporation is a party to partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment.

The Corporation's involvement with these entities results mainly from investments in their equity and/or in subordinated loans and through manufacturing and long-term service contracts. The Corporation concluded that some of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement.

Sale support guarantee – In August 1998, the Corporation provided residual value guarantees on diesel-electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of \$110 million as at January 31, 2010 (\$103 million as at January 31, 2009). The Corporation's maximum exposure under these guarantees is presented in Note 25 – Commitments and contingencies.

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities.

The capital structure provides the Corporation with the ability to meet its liquidity needs as well as support its longer-term strategic investments. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation's adjusted total capitalization consists of adjusted debt and adjusted shareholders' equity (see definitions in table hereafter).

The Corporation's objective with regard to the global metrics is to manage and monitor them such that it can achieve an investment-grade profile, which among other considerations typically requires the respect of the following ratios:

- adjusted EBIT to adjusted net interest ratio greater than 5.0;
- adjusted debt to adjusted EBITDA ratio lower than 2.5; and
- adjusted debt to adjusted total capitalization ratio lower than 55%.

Given the current economic environment, the Corporation's near-term focus is to preserve liquidity. Upon return to normal economic conditions, the Corporation remains committed to improve its capital structure.

Global metrics – The following global metrics do not represent the calculations required for bank covenants. Details of the methods for calculating global leverage metrics are provided in the Non-GAAP financial measures section of the MD&A for fiscal year 2010. The only change in the method for calculating the global metrics from fiscal year 2009 is that following the adoption of Section 1602 "Non-controlling interests" (see Note 1 – Basis of presentation for further details), EBIT, adjusted EBIT and adjusted EBITDA now include income attributable to non-controlling interests and adjusted shareholders' equity now includes non-controlling interests. The January 31, 2009 figures have been restated accordingly.

GLOBAL METRICS		
	January 31 2010	January 31 2009
Interest coverage		
Adjusted EBIT ¹	\$1,249	\$1,535
Adjusted net interest ²	\$ 334	\$ 244
Adjusted EBIT to adjusted net interest ratio	3.7	6.3
Financial leverage		
Adjusted debt ³	\$6,084	\$5,841
Adjusted EBITDA ⁴	\$1,792	\$2,129
Adjusted debt to adjusted EBITDA ratio	3.4	2.7
Capitalization		
Adjusted debt ³	\$6,084	\$5,841
Adjusted total capitalization ⁵	\$9,928	\$8,906
Adjusted debt to adjusted total capitalization ratio	61%	66%

1 Represents earnings before financing income, financing expense and income taxes, plus adjustment for pension deficit and operating leases.

2 Represents financing income and financing expense, plus adjustment for pension deficit and operating leases.

3 Represents long-term debt (including the value of the related derivative hedging financial instruments), the total pension deficit (including the off-balance sheet portion) and the net present value of operating lease obligations.

4 Represents earnings before financing income, financing expense, income taxes, depreciation and amortization, plus amortization adjustment for operating leases and adjustment for pension deficit and operating leases.

5 Consists of adjusted shareholders' equity (represents all components of shareholders' equity less the amount in AOCI relating to cash flow hedges) and adjusted debt.

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders. Subsequent to year-end, the Corporation implemented a refinancing plan; see Note 30 – Subsequent event.

Bank covenants are described in Note 11 – Credit facilities.

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SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

BA	BT
BA is a world leader in the design and manufacture of innovative aviation products and is a provider of related services. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets and amphibious aircraft. BA also offers aftermarket services as well as fractional ownership and flight entitlement programs.	BT is a world leader in the design and manufacture of rail equipment and system manufacturing and a provider of related services, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies. Management assesses segment performance based on income before financing income, financing expense and income taxes. Corporate charges are allocated to segments mostly based on each segment's revenues.

Net segmented assets exclude cash and cash equivalents, invested collateral and deferred income taxes, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related long-term contract costs, advances on aerospace program, fractional ownership deferred revenues, accrued benefit liabilities and derivative financial instruments.

The tables containing the detailed segmented data are shown hereafter.

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RECLASSIFICATIONS

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

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SUBSEQUENT EVENT

As part of its capital management strategy, the Corporation implemented a series of transactions to increase its liquidity and to extend the weighted-average long-term debt maturity profile.

On March 15, 2010, the Corporation launched a tender offer to repurchase up to \$1.0 billion of the following Notes, which are presented on the order of repurchase priority:

- \$550 million, bearing interest at 6.75%, due in May 2012;
- \$500 million, bearing interest at 6.30%, due in May 2014; and
- €679 million (\$942 million), bearing floating interest rate, due in November 2013.

The tender offer will expire on April 12, 2010, unless extended or earlier terminated. The final allocation of the purchase price between each series of outstanding Notes will be determined only upon expiry of the tender offer.

On March 29, 2010, the Corporation issued the following unsecured Senior notes:

- \$650 million, bearing interest at 7.5% per year, due in calendar year 2018; and
- \$850 million, bearing interest at 7.75% per year due in calendar year 2020.

The net cash proceeds arising from these capital transactions, estimated at approximately \$500 million after payment of fees and expenses, will be used for general corporate purposes.

SEGMENTED INFORMATION

Industry segments	Bombardier Inc. consolidated		BA		BT	
	2010	2009 ¹	2010	2009 ¹	2010	2009 ¹
For the fiscal years ended January 31						
Revenues						
Manufacturing	\$14,739	\$14,779	\$7,475	\$8,116	\$7,264	\$6,663
Services	2,767	3,117	1,359	1,588	1,408	1,529
Other	1,860	1,825	523	261	1,337	1,564
	19,366	19,721	9,357	9,965	10,009	9,756
Cost of sales	16,202	16,049	7,959	7,876	8,243	8,173
Selling, general and administrative	1,453	1,558	601	715	852	843
Research and development	141	171	6	51	135	120
Other expense (income)	(26)	(41)	(53)	(4)	27	(37)
Amortization	498	555	371	431	127	124
	18,268	18,292	8,884	9,069	9,384	9,223
EBIT	\$ 1,098	\$ 1,429	\$ 473	\$ 896	\$ 625	\$ 533
Additions to property, plant and equipment and intangible assets	\$ 805	\$ 621	\$ 634	\$ 430	\$ 171	\$ 191
As at	January 31 2010	January 31 2009	January 31 2010	January 31 2009	January 31 2010	January 31 2009
Net segmented assets	\$ 2,929	\$ 1,230	\$ 2,758	\$ 1,296	\$ 171	\$ (66)
Liabilities allocated to segments:						
Accounts payable and accrued liabilities ²	7,274	6,791				
Advances and progress billings in excess of related long-term contract costs	1,899	2,072				
Advances on aerospace programs	2,092	2,991				
Fractional ownership deferred revenues	346	573				
Accrued benefit liabilities	1,084	992				
Derivative financial instruments	429	1,194				
Assets not allocated to segments:						
Cash and cash equivalents	3,372	3,470				
Invested collateral	682	777				
Deferred income taxes	1,166	1,216				
Total consolidated assets	\$21,273	\$21,306				

¹ Refer to Note 1 for impact of new accounting policies.

² Excluding interest and income taxes payable amounting to \$56 million and \$97 million respectively as at January 31, 2010 (\$61 million and \$70 million as at January 31, 2009), which were not allocated to segments.

SEGMENTED INFORMATION

Geographic information	Revenues ¹		Property, plant and equipment, intangible assets and goodwill ²	
	2010	2009	2010	2009
United States	\$ 4,370	\$ 5,451	\$ 523	\$ 413
Germany	1,977	1,429	1,421	1,351
France	1,607	1,421	54	44
United Kingdom	1,552	2,264	812	658
China	1,343	615	42	34
Canada	1,036	807	1,562	1,477
Sweden	651	416	444	374
Australia	570	388	9	7
Italy	541	497	144	133
Spain	541	567	9	8
Russia	537	104	–	–
Switzerland	491	774	335	301
India	353	234	12	21
Netherlands	350	540	1	–
Other – Europe	1,639	2,043	124	124
Other – Asia	945	974	52	1
Other – Americas	403	665	32	22
Other – Africa	402	518	10	9
Other – Oceania	58	14	–	–
	\$19,366	\$19,721	\$5,586	\$4,977

1 Revenues are attributed to countries based on the location of the customer.

2 Property, plant and equipment and intangible assets are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

BOMBARDIER TRANSIT CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JANUARY 31, 2011 and 2010

As Excerpted from BOMBARDIER INC. Annual Report, Year Ended January 31, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and MD&A of Bombardier Inc. and all other information in this annual report are the responsibility of Management and have been reviewed and approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian GAAP. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the annual report is consistent with that in the Consolidated Financial Statements.

Bombardier's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Bombardier Inc. has been made known to them; and information required to be disclosed in Bombardier Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Bombardier's CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures as of the end of fiscal year 2011. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of fiscal year 2011. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier's CEO and CFO have provided a certification related to Bombardier's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with Management, as well as with the internal and external auditors, to review the Consolidated Financial Statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the Consolidated Financial Statements as presented by Management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the Consolidated Financial Statements and MD&A for issuance to shareholders.

The Consolidated Financial Statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

(Signed by)

Pierre Beaudoin,
President and Chief Executive Officer

March 30, 2011

(Signed by)

Pierre Alary, FCA
Senior Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the accompanying Consolidated Financial Statements of Bombardier Inc. which comprise the consolidated balance sheets as at January 31, 2011 and 2010, and the consolidated statements of changes in equity, of income, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bombardier Inc. as at January 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[EY's signature] ¹

Ernst & Young LLP
Chartered Accountants
Montréal, Canada

March 30, 2011

¹ CA auditor permit no. 9859

BOMBARDIER INC.
CONSOLIDATED BALANCE SHEETS
(In millions of U.S. dollars)

As at January 31	Notes	2011	2010
Assets			
Cash and cash equivalents	11	\$ 4,195	\$ 3,372
Invested collateral	11	676	682
Receivables	4	2,022	1,897
Aircraft financing	5	668	473
Inventories	6	5,155	5,268
PP&E	7	1,767	1,643
Intangible assets	8	2,304	1,696
Fractional ownership deferred costs		176	271
Deferred income taxes	19	1,172	1,166
Accrued benefit assets	24	1,209	1,070
Derivative financial instruments	3	535	482
Goodwill	9	2,358	2,247
Other assets	10	1,193	1,006
		\$ 23,430	\$ 21,273
Liabilities			
Accounts payable and accrued liabilities	12	\$ 8,027	\$ 7,427
Advances and progress billings in excess of related long-term contract costs		2,421	1,899
Advances on aerospace programs		1,937	2,092
Fractional ownership deferred revenues		218	346
Deferred income taxes	19	53	65
Long-term debt	13	4,635	4,162
Accrued benefit liabilities	24	1,132	1,084
Derivative financial instruments	3	655	429
		19,078	17,504
Equity			
Equity attributable to shareholders of Bombardier Inc.		4,274	3,701
Equity attributable to non-controlling interests		78	68
		4,352	3,769
		\$ 23,430	\$ 21,273
Commitments and contingencies	25		

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the Board of Directors,

(Signed by)

Laurent Beaudoin, C.C., FCA
Director

(Signed by)

L. Denis Desautels, O.C., FCA
Director

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In millions of U.S. dollars, except number of shares)

For the fiscal years ended January 31

		2011		2010	
	Notes				
		Number (in thousands)	Amount	Number (in thousands)	Amount
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF BOMBARDIER INC.	14				
Preferred shares					
Series 2		9,465	\$ 159	9,465	\$ 159
Series 3		2,535	40	2,535	40
Series 4		9,400	148	9,400	148
		21,400	347	21,400	347
Common shares					
Class A Shares (Multiple Voting)					
Balance at beginning of year		316,232	29	316,583	29
Converted to Class B		(122)	-	(351)	-
Balance at end of year		316,110	29	316,232	29
Class B Shares (Subordinate Voting)					
Balance at beginning of year		1,438,518	1,430	1,437,520	1,428
Issuance of shares		1,358	6	647	2
Repurchase of shares	14	(3,000)	(3)	-	-
Converted from Class A		122	-	351	-
		1,436,998	1,433	1,438,518	1,430
Held in trust under the PSU plan	14				
Balance at beginning of year		(25,099)	(135)	(23,654)	(130)
Purchased	14	(10,539)	(50)	(7,068)	(21)
Distributed		8,178	47	5,623	16
Balance at end of year		(27,460)	(138)	(25,099)	(135)
Balance at end of year		1,409,538	1,295	1,413,419	1,295
Balance at end of year - common shares		1,725,648	1,324	1,729,651	1,324
Total - share capital			\$ 1,671		\$ 1,671
Contributed surplus					
Balance at beginning of year			\$ 132		\$ 104
Stock-based compensation	15		47		46
Options exercised and shares distributed under the PSU plan			(48)		(18)
Balance at end of year			131		132
Retained earnings					
Balance at beginning of year			2,087		1,567
Net income attributable to shareholders of Bombardier Inc.			755		698
Excess of price paid over carrying value of repurchased Class B Shares	14		(13)		-
Dividends:					
Common shares			(173)		(157)
Preferred shares, net of tax			(24)		(21)
Balance at end of year			2,632		2,087
AOCI	16				
Balance at beginning of year			(189)		(801)
OCI attributable to shareholders of Bombardier Inc.			29		612
Balance at end of year			(160)		(189)
			4,274		3,701
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS					
Balance at beginning of year			68		66
Foreign exchange re-evaluation			-		5
Net income attributable to non-controlling interests			14		9
OCI attributable to non-controlling interests			1		-
Capital distribution			(8)		(12)
Capital injection			3		-
Balance at end of year			78		68
EQUITY			\$ 4,352		\$ 3,769

The accompanying notes are an integral part of these Consolidated Financial Statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
(In millions of U.S. dollars, except per share amounts)

For the fiscal years ended January 31		2011	2010
	Notes		
Revenues			
Manufacturing		\$ 12,903	\$ 14,739
Services		2,872	2,767
Other		1,937	1,860
		17,712	19,366
Cost of sales	6	14,668	16,202
SG&A		1,369	1,453
R&D		193	141
Other expense (income)	17	22	(26)
Amortization		410	498
		16,662	18,268
EBIT		1,050	1,098
Financing income	18	(137)	(96)
Financing expense	18	256	279
EBT		931	915
Income taxes	19	162	208
Net income		\$ 769	\$ 707
Attributable to:			
Shareholders of Bombardier Inc.		\$ 755	\$ 698
Non-controlling interests		\$ 14	\$ 9
EPS (in dollars)			
Basic and diluted	20	\$ 0.42	\$ 0.39

The accompanying notes are an integral part of these Consolidated Financial Statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions of U.S. dollars)

For the fiscal years ended January 31		2011	2010
	Notes		
Net income		\$ 769	\$ 707
OCI	16		
Net unrealized gain on financial assets			
AFS, net of tax		7	20
Net change in cash flow hedges:			
Foreign exchange re-evaluation		(6)	8
Net gain (loss) on derivative financial instruments designated as cash flow hedges		(27)	451
Reclassification to income or to the related non-financial asset		(78)	125
Income tax recovery (expense)		5	(204)
		(106)	380
CTA			
Net investments in self-sustaining foreign operations ⁽¹⁾		128	356
Net gain (loss) on related hedging items		1	(144)
		129	212
Total OCI		30	612
Total Comprehensive income		\$ 799	\$ 1,319
Attributable to:			
Shareholders of Bombardier Inc.		\$ 784	\$ 1,310
Non-controlling interests		\$ 15	\$ 9

⁽¹⁾ Includes a gain of \$1 million attributable to non-controlling interests in fiscal year 2011 (nil in fiscal year 2010).

The accompanying notes are an integral part of these Consolidated Financial Statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of U.S. dollars)

For the fiscal years ended January 31		2011	2010
	Notes		
Operating activities			
Net income		\$ 769	\$ 707
Non-cash items:			
Amortization		410	498
Deferred income taxes	19	7	(9)
Stock-based compensation	15	47	46
Gain on repurchase of long-term debt	18	(47)	-
Gain on disposals of PP&E	17	(11)	(19)
Impairment of PP&E	17	8	-
Net change in non-cash balances related to operations	21	495	(671)
Cash flows from operating activities		1,678	552
Investing activities			
Additions to PP&E and intangible assets		(1,094)	(805)
Disposals of PP&E and intangible assets		21	38
Invested collateral		-	145
Other		(100)	(82)
Cash flows from investing activities		(1,173)	(704)
Financing activities			
Proceeds from issuance of long-term debt	13	2,625	4
Repayments of long-term debt	13	(2,125)	(11)
Dividends paid		(197)	(178)
Purchase of Class B shares - held in trust under the PSU plan	14	(50)	(21)
Repurchase of Class B Shares	14	(16)	-
Other		(21)	(10)
Cash flows from financing activities		216	(216)
Effect of exchange rate changes on cash and cash equivalents		102	270
Net increase (decrease) in cash and cash equivalents		823	(98)
Cash and cash equivalents at beginning of year		3,372	3,470
Cash and cash equivalents at end of year		\$ 4,195	\$ 3,372
Supplemental information			
Cash paid for:			
Interest		\$ 343	\$ 254
Income taxes		\$ 132	\$ 115

The accompanying notes are an integral part of these Consolidated Financial Statements.

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services.

1. BASIS OF PRESENTATION

The Consolidated Financial Statements are expressed in U.S. dollars and have been prepared in accordance with Canadian GAAP. The Corporation and its subsidiaries carry out their operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified.

Future changes in accounting policies

IFRS

Canadian GAAP for most publicly accountable entities will be changed to IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. First reporting under IFRS is required for the Corporation's interim and annual financial statements beginning on February 1, 2011. IFRS 1, "First-time Adoption of International Financial Reporting Standards", requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period (December 31, 2011 for the Corporation, subject to the approval of the proposed change of financial year-end from January 31 to December 31 by the Corporation's Board of Directors in December 2011). For more details on the Corporation IFRS conversion, refer to the IFRS conversion section of the MD&A for the fiscal year ended January 31, 2011 and 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Consolidated Financial Statements include:

- the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned;
- the accounts of VIEs when the Corporation is the primary beneficiary; and
- the Corporation's proportionate share of the assets, liabilities and results of operations and cash flows of its joint ventures.

Subsidiaries – The principal subsidiaries of the Corporation, whose revenues represent more than 10% of total revenues of each respective segment, are as follows:

Subsidiary	Location
Bombardier Transportation GmbH	Germany
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Bombardier Transport France S.A.S.	France
Learjet Inc.	U.S.
Bombardier Aerospace Corporation	U.S.

Most legal entities of BT use a December 31 fiscal year-end. As a result, the Corporation consolidates the operations of BT with a one-month lag with the remainder of its operations. To the extent that significant unusual transactions or events occur during the one-month lag period, the Corporation's Consolidated Financial Statements are adjusted accordingly.

VIEs – AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15") requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the variable interest holder becomes the primary beneficiary. See Note 26 – Variable interest entities,

for additional information on VIEs. The Corporation revises its determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, particularly as they relate to long-term contracts, fair value measurement of financial instruments, provision for credit and residual value guarantees related to the sales of aircraft, revenue recognition for medium and large business aircraft, valuation of pre-owned aircraft, actuarial and economic assumptions used in determining employee future benefits, useful lives of long-lived assets, recovery of goodwill, VIEs, accrual of product warranties and income taxes. Management's best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and management assessment of probable future outcomes of these matters. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates, and such differences could be material.

Management conducts quarterly reviews, as well as a detailed annual review of its cost estimates as part of its annual budget process. The effect of revision on long-term contracts is accounted for by way of a cumulative catch-up adjustment to cost of sales in the period in which the revision takes place.

Translation of foreign currencies

The Corporation's functional currencies are mainly the U.S. dollar in BA, and the euro, various other Western European currencies and the U.S. dollar in BT. All significant foreign operations are classified as self-sustaining foreign operations.

Self-sustaining foreign operations – All assets and liabilities are translated using the exchange rates in effect at year-end. Revenues and expenses are translated using the average exchange rates for the period. Translation gains or losses are included in OCI.

Accounts denominated in foreign currencies – Accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated using the exchange rates in effect at year-end and non-monetary items are translated using the historical exchange rates. Revenues and expenses (other than amortization, which is translated using the same exchange rates as the related assets) are translated using the average exchange rates for the period.

Hedging items designated as hedges of net investments in self-sustaining foreign operations – Translation gains or losses, net of tax, related to the hedging items designated as hedges of the Corporation's net investments in self-sustaining foreign operations are included in OCI.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, invested collateral, trade receivables, commercial aircraft loans and lease receivables, investment in securities, investment in VIEs, servicing fees, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade account payables, certain accrued liabilities, related liabilities in connection with the sale of commercial aircraft, accrued interest, certain payroll-related liabilities, long-term debt and derivative financial instruments with a negative fair value.

Financial instruments are recognized on the balance sheet when the Corporation becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in determining the carrying value of financial assets and financial liabilities not classified as HFT. Subsequently, financial assets and financial liabilities are measured according to the category to which they are assigned, which are AFS financial assets, L&R, other than HFT financial liabilities or financial assets and liabilities classified as HFT. See Note 3 – Financial instruments, for their classifications. Financial assets and financial liabilities are

subsequently measured at amortized cost, unless they are classified as AFS or HFT, in which case they are subsequently measured at fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions, with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as HFT and measured at fair value.

Invested collateral

Invested collateral consist mainly of bonds (government and agency notes and bonds, corporate bonds and covered bonds), commercial paper and certificates of deposit, held with a custodian. The weighted-average maturity of the securities in the portfolios is not to exceed one year and should have a minimum weighted-average rating of A. These investments serve as collateral for the €3.8-billion (\$5.2-billion) BT letter of credit facility ("BT facility") and for the \$600-million BA letter of credit facility ("BA facility") (see Note 11 – Credit facilities). The weighted-average credit rating of both portfolios is rated AA as at January 31, 2011. The invested collateral is designated as HFT using the fair value option and measured at fair value. Subsequent changes in fair value are recorded in financing income.

Sales of receivables

Transfers of loans and receivables are recognized as sales when control over these assets has been surrendered and consideration other than beneficial interests in the transferred assets was received. Retained interests are accounted for as loans or lease receivables in accordance with their substance.

When the transfer is considered a sale, all assets sold are derecognized. Assets received and liabilities incurred, such as those arising from credit enhancement support, are recognized at fair value. The gain or loss is recognized upon the sale of assets. Fair values are generally estimated based on the present value of future expected cash flows using management's best estimates for credit losses, forward yield curves and discount rates commensurate with the risks involved.

Loans and lease receivables

Aircraft leased under terms that transfer substantially all of the benefits and risks of ownership to customers are accounted for as sale-type leases and are presented in aircraft financing.

Loans and lease receivables presented in aircraft financing are classified as L&R unless they have been designated as HFT using the fair value option. Loans and lease receivables classified as L&R are carried at amortized cost.

Loans and lease receivables designated as HFT are measured at fair value. Subsequent changes in fair value are recorded in other expense (income), except for the interest portion of the gains and losses, which is recorded in financing income.

Assets under operating leases (lessor)

Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, most of which are pre-owned, are presented in aircraft financing.

Long-term investments

Investments in entities over which the Corporation exercises significant influence are accounted for under the equity method and are presented in other assets. Investments in financing structures are classified as L&R, carried at amortized cost and presented in aircraft financing. Investment in securities are classified as AFS, carried at fair value and presented in other assets. Investments in VIEs are designated as HFT using the fair value option (measured at fair value) and presented in other assets.

Impairment of financial assets

Allowance for doubtful accounts – Trade receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review.

Allowance for credit losses – Loans and lease receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest, generally when contractually due payments are 90 days in arrears or customers have filed for bankruptcy.

The Corporation maintains an allowance for credit losses in an amount sufficient to absorb expected losses. The level of allowance is based on management's assessment of the risks associated with each of the Corporation's portfolios, including delinquencies, loss and recovery experience, collateral-specific factors, including age and type of aircraft, risk of individual customer credit, published historical default rates for different credit rating categories, commercial airline industry performance, and the impact of current and projected economic conditions.

Other-than-temporary impairment for investment in securities – When there is objective evidence that a decline in fair value of an AFS financial asset is other than temporary, the cumulative loss equal to the difference between the acquisition cost of the investment and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for equity instruments classified as AFS cannot be reversed. Impairment losses recognized in net income for debt instruments classified as AFS can be reversed if the increase can be objectively related to an event occurring after the impairment losses were recognized.

Inventory valuation

Aerospace programs – Inventories determined under the unit cost method are recorded at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. Cost of inventories includes materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition.

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (the reversal is limited to the amount of the original write-down).

Long-term contracts – Long-term contract inventories accounted for under the percentage-of-completion method includes materials, direct labour and manufacturing overhead as well as estimated contract margins. Inventories related to long-term service contracts accounted for as the services are rendered include materials, direct labour and manufacturing overhead.

Finished products – Finished product inventories, which include spare parts and new and pre-owned aircraft, are mainly determined under the unit cost and moving average method, and are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition. Inventories

are written down to net realizable value when the cost of inventories is not estimated to be recoverable. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (the reversal is limited to the amount of the original write-down).

The Corporation estimates net realizable value by using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

Payments, advances and progress billings – Payments received on account of work performed for long-term contracts are deducted from related costs in inventories. Advances received and progress billings in excess of related costs are shown as liabilities.

PP&E

PP&E are recorded at cost and include certain leased equipments.

Amortization is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Other	3 to 20 years

Amortization of assets under construction begins when they are ready for their intended use.

Improvements to existing PP&E that significantly extend the useful life or utility of the assets are capitalized, whereas maintenance and repair costs are charged to income when incurred.

Intangible assets

Intangible assets are recorded at cost and are comprised of aerospace program tooling as well as costs related to licences, patents and trademarks and other intangible assets. The Corporation does not have indefinite-lived intangible assets, other than goodwill.

Aerospace program tooling – Development costs, including prototype design, testing costs and interest charges during the development, are capitalized when certain criteria for deferral are met, such as proven technical feasibility and official program launch. Amortization begins at the date of delivery of the first aircraft of the program.

Licences, patents and trademarks – Represents mainly intangible assets acquired from third parties. Amortization begins when the asset is ready for its intended use.

Other intangible assets – These costs are mainly related to application software. Internally modified application software are capitalized when certain criteria for deferral are met, such as proven technical feasibility. Application software are treated as intangible assets as they are not integral to the operation of a related hardware. Amortization begins when the asset is ready for its intended use.

Amortization is computed under the following methods and estimated useful lives:

Aerospace program tooling	Straight-line	10 years
Licences, patents and trademarks	Straight-line	3 to 20 years
Other intangible assets	Straight-line	3 to 5 years

Impairment of long-lived assets

Impairment – Long-lived assets include aircraft under operating leases, PP&E and finite-life intangible assets. Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The first step in the recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. If the

carrying value exceeds the undiscounted cash flows, the amount of the impairment is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in amortization.

Long-lived assets held for sale are recorded at the lower of cost or fair value, less cost to sell.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually, or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired.

The Corporation evaluates the recoverability of goodwill using a two-step test approach at the segment level ("reporting unit"). Under the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

Guarantees

The Corporation has issued credit guarantees, residual value guarantees, trade-in commitment and performance guarantees. Guarantees are initially recognized at fair value on the date the guarantees are unconditionally given.

Credit and residual value guarantees related to the sale of aircraft are subsequently remeasured using the settlement value method. Subsequent changes in the value of these guarantees are recorded in cost of sales, except for the interest portion, which is recorded in financing expense.

Subsequent to initial recognition, adverse changes in the fair value of the trade-in commitment are recorded in cost of sales as they occur.

Other guarantees are subsequently remeasured when a loss becomes probable.

Derivative financial instruments

Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks. They consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. Derivative financial instruments are measured at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

Derivative financial instruments are classified as HFT, unless they are designated as hedging instruments for which hedge accounting is applied (see below). Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in other expense (income) or financing income or financing expense, based on the nature of the exposure.

Embedded derivatives of the Corporation include financing rate commitments, call options on long-term debt and foreign exchange instruments. Upon initial recognition, the fair value of financing rate commitments is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the aircraft. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in other expense (income). Subsequent changes in fair value are

recorded in other expense (income) or in financing income or financing expense, based on the nature of the exposure.

Hedge accounting

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted foreign currency cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

- **Fair value hedges** – The Corporation designates certain interest-rate derivatives and forward foreign exchange contracts as fair value hedges. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.
- **Cash flow hedges** – The Corporation designates forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.
- **Hedge of net investments in self-sustaining foreign operations** – The Corporation designates certain cross-currency interest-rate swap agreements and long-term debt as hedges of its net investments in self-sustaining foreign operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified to net income when corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recorded in net income.

The portion of gains or losses on the hedging item that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Gains and losses on derivatives not designated in a hedge relationship and gains and losses on the ineffective portion of effective hedges are recorded in other expense (income), or in financing income or financing expense for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Stock-based compensation and other stock-based payments

Share option plans – All awards granted or modified after January 31, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using a modified Black-Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase in contributed surplus.

All awards granted or modified prior to February 1, 2003 are accounted for as capital transactions. No compensation expense is recorded in income for these awards.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

PSU and DSU plans – The value of the compensation for PSUs and DSUs that are expected to vest is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange on the date of grant. The value of the compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. The effect of any change in the number of PSUs and DSUs that are expected to vest is accounted for in the period in which the estimate is revised.

Employee share purchase plan – The Corporation's contributions to the employee share purchase plan are accounted for in the same manner as the related employee payroll costs.

Revenue recognition

Aerospace programs – Revenues from the sale of commercial aircraft and light business aircraft (*Learjet Series*) are recognized upon final delivery of products and presented in manufacturing revenues.

Medium and large business aircraft (*Challenger* and *Global Series*) contracts are segmented between green aircraft (i.e. before exterior painting and installation of customer-selected interiors and optional avionics) and completion. Revenues are recognized based on green aircraft deliveries (when certain conditions are met), and upon final acceptance of interiors and optional avionics by customers. Revenues for green aircraft delivery and completion are presented in manufacturing revenues.

Fractional ownership program – Revenues from the sale of aircraft fractional shares are recognized over the period during which the related services are rendered to the customer, generally five years, and are included in manufacturing revenues. At the time of sale, the proceeds from the sale are recorded in fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to fractional ownership deferred costs and is charged to cost of sales over the same period. Other revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer and are presented in services revenues.

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method of accounting. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Vehicle and component overhaul revenues are presented in services revenues. System and signalling revenues are presented in other revenues. All other long-term manufacturing contract revenues are presented in manufacturing revenues.

Revenues from maintenance service contracts entered into on or after December 17, 2003 are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract and are presented in services revenues. Maintenance service contracts entered into before this date are recognized using the percentage-of-completion method of accounting.

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in services revenues.

Estimated revenues from long-term contracts include revenues from change orders and claims when it is probable that they will result in additional revenues in an amount that can be reliably estimated.

If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in cost of sales in the period in which the negative gross margin is identified.

Other – Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in other revenues and spare parts revenues are included in services revenues. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in other revenues. Interest income related to aircraft financing is recognized over the term of the applicable loans or leases using the effective interest method and is included in financing income.

Sales incentives

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit and residual value guarantees, financing rate commitment, trade-in commitments, conditional repurchase obligations and free related product and services.

Credit and residual value guarantees related to the sale of aircraft and trade-in commitments are discussed in the accounting policy on guarantees before while financing rate commitments are discussed in the accounting policy on derivative financial instruments before.

Conditional repurchase obligations are accounted for as trade-in commitments from the time the Corporation enters into an agreement for the sale of a new aircraft and the customer exercises its right to partially pay for the new aircraft by trading in its pre-owned aircraft. No provision is recorded for conditional repurchase obligations until they become trade-in commitments.

Other sales incentives, such as free training and spare parts, are recorded at their estimated cost as a reduction of manufacturing revenues or included in cost of sales at the time of the sale.

Government assistance

Government assistance, including investment tax credits, relating to the acquisition of inventories, PP&E and intangible assets, is recorded as a reduction of the cost of the related asset. Government assistance, including investment tax credits, related to current expenses is recorded as a reduction of the related expenses.

Product warranties

A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews its recorded product warranty provisions quarterly and any adjustment is recorded in cost of sales.

Income taxes

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for income tax losses carried forward. Deferred income tax assets and liabilities are measured using substantively enacted tax rates, which will be in effect for the year in which the differences are expected to reverse.

A valuation allowance is recorded to reduce the carrying amount of deferred income tax assets when it is more likely than not that these assets will not be realized.

EPS

Basic EPS are computed based on net income attributable to shareholders of Bombardier Inc. less preferred shares dividends, net of tax, divided by the weighted-average basic number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

Diluted EPS are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

Employee future benefits

The defined benefit plans are accounted for as follows:

- Plan assets are measured at fair value.
- With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
- The net actuarial gains and losses over 10% of the greater of the projected benefit obligation and the market-related value of plan assets, as well as past service costs, are amortized over the estimated weighted-average remaining service life of plan participants, which is on average approximately 14 years but varies from plan to plan.
- Plan obligations are determined based on expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.
- When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation by the Corporation.
- The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and health care costs.
- Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling, or is recognized directly through income.
- The Corporation uses a December 31 measurement date.

Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Environmental costs that are not legal asset retirement obligations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in PP&E and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

3. FINANCIAL INSTRUMENTS

The classification of financial instruments as HFT, AFS, L&R and other than HFT, as well as their carrying amounts and fair values, were as follows as at:

	HFT		AFS	Amortized cost ⁽¹⁾	DDHR ⁽²⁾	Total carrying value	Fair value
	Required	Designated					
January 31, 2011							
Financial assets							
Cash and cash equivalents	\$ 4,195	\$ -	\$ -	\$ -	\$ -	\$ 4,195	\$ 4,195
Invested collateral	-	676	-	-	-	676	676
Receivables	-	-	-	1,880 ⁽³⁾	-	1,880	1,880
Aircraft financing	-	407 ⁽⁴⁾	-	91 ⁽⁵⁾	-	498	498
Derivative financial instruments	65 ⁽⁶⁾	-	-	-	470	535	535
Other assets	-	236 ⁽⁷⁾	388 ⁽⁸⁾	146 ⁽⁹⁾	-	770	770
	\$ 4,260	\$ 1,319	\$ 388	\$ 2,117	\$ 470	\$ 8,554	\$ 8,554
Financial liabilities							
Accounts payable and accrued liabilities	\$ -	\$ 161 ⁽¹⁰⁾	n/a	\$ 3,950 ⁽¹¹⁾	\$ -	\$ 4,111	\$ 4,111
Long-term debt	-	-	n/a	4,635	-	4,635	4,747
Derivative financial instruments	64 ⁽⁶⁾	-	n/a	-	591	655	655
	\$ 64	\$ 161	n/a	\$ 8,585	\$ 591	\$ 9,401	\$ 9,513
January 31, 2010							
Financial assets							
Cash and cash equivalents	\$ 3,372	\$ -	\$ -	\$ -	\$ -	\$ 3,372	\$ 3,372
Invested collateral	-	682	-	-	-	682	682
Receivables	-	-	-	1,766 ⁽³⁾	-	1,766	1,766
Aircraft financing	-	280 ⁽⁴⁾	-	95 ⁽⁵⁾	-	375	375
Derivative financial instruments	98 ⁽⁶⁾	-	-	-	384	482	482
Other assets	-	228 ⁽⁷⁾	328 ⁽⁸⁾	115 ⁽⁹⁾	-	671	671
	\$ 3,470	\$ 1,190	\$ 328	\$ 1,976	\$ 384	\$ 7,348	\$ 7,348
Financial liabilities							
Accounts payable and accrued liabilities	\$ -	\$ 196 ⁽¹⁰⁾	n/a	\$ 3,726 ⁽¹¹⁾	\$ -	\$ 3,922	\$ 3,922
Long-term debt	-	-	n/a	4,162	-	4,162	4,035
Derivative financial instruments	77 ⁽⁶⁾	-	n/a	-	352	429	429
	\$ 77	\$ 196	n/a	\$ 7,888	\$ 352	\$ 8,513	\$ 8,386

⁽¹⁾ Financial assets classified as L&R and financial liabilities as other than HFT.

⁽²⁾ DDHR: Derivatives designated in a hedge relationship.

⁽³⁾ Represents trade receivables and certain other receivables.

⁽⁴⁾ Represents certain commercial aircraft loans and lease receivables.

⁽⁵⁾ Represents certain commercial aircraft loans and lease receivables, investment in financing structures and business aircraft loans.

⁽⁶⁾ Represents derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

⁽⁷⁾ Represents investment in VIEs and servicing asset.

⁽⁸⁾ Represents certain investment in securities.

⁽⁹⁾ Includes restricted cash and certain investment in securities.

⁽¹⁰⁾ Represents related liabilities in connection with the sale of commercial aircraft.

⁽¹¹⁾ Includes trade accounts payable, accrued interest, as well as certain accrued liabilities and payroll-related liabilities.

n/a: Not applicable

The methods and assumptions used to measure the fair value of financial instruments are described in Note 22 – Fair value of financial instruments.

The net gain (loss) on financial instruments recognized in income was as follows for fiscal years:

	2011	2010
Financial instruments measured at amortized cost		
L&R - change in valuation allowance	\$ (6)	\$ (4)
Other than HFT - gain from derecognition of long-term debt	\$ 47	\$ -
Financial instruments measured at fair value		
AFS - impairment losses	\$ (2)	\$ (2)
HFT - changes in fair value		
Designated as HFT ⁽¹⁾	\$ (2)	\$ 29
Required to be classified as HFT ^{(2) (3)}	\$ 25	\$ 37

⁽¹⁾ Excludes the interest income portion related to the invested collateral of \$9 million for fiscal year 2011 (\$14 million for fiscal year 2010).

⁽²⁾ Excludes the interest income portion related to cash and cash equivalents of \$19 million for fiscal year 2011 (\$26 million for fiscal year 2010).

⁽³⁾ Includes a net loss of \$10 million in connection with economic hedges not designated in hedging relationships for fiscal year 2011 (net gain of \$53 million for fiscal year 2010).

For the amounts of unrealized gains (losses) on AFS financial assets recognized directly in OCI during fiscal years 2011 and 2010, see the consolidated statements of comprehensive income.

Derivative and hedging activities

The carrying amounts of all derivative financial instruments and certain non-derivative financial instruments in a hedge relationship were as follows as at:

	January 31, 2011		January 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges				
Cross-currency interest-rate swaps	\$ -	\$ 46	\$ -	\$ 35
Interest-rate swaps	80	-	140	-
	80	46	140	35
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts ^{(1) (2)}	390	509	244	279
Derivative financial instruments designated as hedges of net investment				
Cross-currency interest-rate swaps	-	36	-	38
Derivative financial instruments classified as HFT⁽³⁾				
Forward foreign exchange contracts	9	48	31	53
Cross-currency interest-rate swaps	-	-	21	-
Interest-rate swaps	-	6	-	7
Embedded derivative financial instruments:				
Foreign exchange	16	8	26	8
Call options on long-term debt	40	-	20	-
Financing rate commitments	-	2	-	9
	65	64	98	77
Total derivative financial instruments	\$ 535	\$ 655	\$ 482	\$ 429
Non-derivative financial instruments designated as hedges of net investment				
Long-term debt	\$ -	\$ 715	\$ -	\$ 399

⁽¹⁾ The component of the hedging item's gain or loss excluded from the assessment of effectiveness amounted to a net loss of \$18 million for fiscal year 2011 (\$3 million for fiscal year 2010).

⁽²⁾ The maximum length of time of the derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 28 months as at January 31, 2011.

⁽³⁾ Held as economic hedges, except for embedded derivative financial instruments.

4. RECEIVABLES

Receivables were as follows as at January 31:

	2011	2010
Trade receivables ⁽¹⁾	\$ 1,777	\$ 1,721
Sales tax	98	74
Other	199	154
	2,074	1,949
Allowance for doubtful accounts	(52)	(52)
	\$ 2,022	\$ 1,897

⁽¹⁾ Of which \$474 million and \$393 million are denominated in euro and other foreign currencies, respectively, as at January 31, 2011 (\$313 million and \$442 million, respectively as at January 31, 2010).

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows as at January 31:

	2011	2010
Balance at beginning of year	\$ (52)	\$ (70)
Provision for doubtful accounts	(4)	(11)
Amounts written off	4	34
Effect of foreign currency exchange rate changes	-	(5)
Balance at end of year	\$ (52)	\$ (52)

Receivables that are past due but not impaired – The trade receivables that are past due but not impaired for BA amounted to \$63 million, of which \$14 million were more than 90 days past due as at January 31, 2011 (\$53 million, of which \$14 million were more than 90 days past due as at January 31, 2010).

In addition, \$331 million of trade receivables related to BT long-term contracts are past due but not impaired as at January 31, 2011, of which \$197 million were more than 90 days past due (\$350 million as at January 31, 2010, of which \$160 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

Receivables that are impaired – The Corporation has determined that a gross amount of \$46 million of trade receivables are individually determined to be impaired as at January 31, 2011 (\$38 million as at January 31, 2010). The factors the Corporation considers are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears for over 90 days.

5. AIRCRAFT FINANCING

Aircraft financing was as follows as at January 31:

	2011			2010		
	Weighted-average		Rate ⁽¹⁾ (in %)	Weighted-average		Rate ⁽¹⁾ (in %)
	Total (in months)	Maturity		Total (in months)	Maturity	
Commercial aircraft						
Loans	\$ 305	128	8.8	\$ 248	108	9.0
Lease receivables ⁽²⁾	137	114	5.7	69	159	4.1
	442			317		
Business aircraft loans ⁽³⁾	3	11	1.9	8	18	7.5
Total loans and lease receivables	445			325		
Allowance for credit losses	(2)			(3)		
	443			322		
Assets under operating leases	170			98		
Investment in financing structures	55			53		
	\$ 668			\$ 473		

⁽¹⁾ Effective interest rates are before giving effect to the related hedging derivative financial instruments and for variable-rate loans and lease receivables, the interest rate represents the average rate for the fiscal year.

⁽²⁾ Includes \$11 million of lease receivables related to consolidated VIEs as at January 31, 2011 and as at January 31, 2010.

⁽³⁾ This portfolio is being wound down.

Loans and lease receivables – Financing with three airlines represents 42% of the total loans and lease receivables as at January 31, 2011 (three airlines represented 43% as at January 31, 2010). Loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors. The value of the collateral also fluctuates with economic cycles.

Lease receivables consist of the following, before allowance for credit losses, as at January 31:

	2011	2010
Total minimum lease payments	\$ 123	\$ 47
Unearned income	(28)	(17)
Unguaranteed residual value	42	39
	\$ 137	\$ 69

Assets under operating leases – Assets under operating leases were as follows as at January 31:

	2011		2010	
	Cost	Net book value	Cost	Net book value
Pre-owned commercial aircraft	\$ 144	\$ 122	\$ 60	\$ 45
Pre-owned business aircraft	55	48	56	53
	\$ 199	\$ 170	\$ 116	\$ 98

Rental income from operating leases and amortization of assets under operating leases amounted to \$15 million and \$14 million, respectively, for fiscal year 2011 (\$10 million and \$12 million, respectively, for fiscal year 2010).

6. INVENTORIES

Inventories were as follows as at January 31:

	2011	2010
Long-term contracts		
Costs incurred and recorded margins	\$ 5,962	\$ 5,793
Less: advances and progress billings	(4,048)	(4,155)
	1,914	1,638
Aerospace programs	2,193	2,576
Finished products ⁽¹⁾	1,048	1,054
	\$ 5,155	\$ 5,268

⁽¹⁾ Finished products include spare parts and 11 new aircraft not associated with a firm order and 21 pre-owned aircraft, totalling \$294 million as at January 31, 2011 (7 new aircraft and 19 pre-owned aircraft, totalling \$274 million as at January 31, 2010).

Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in BT, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual manufacturer's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Inventories recognized as cost of sales – The amount of inventories recognized as cost of sales totalled \$13,643 million for fiscal year 2011 (\$15,227 million for fiscal year 2010). These amounts include \$46 million of write-down for fiscal year 2011 (\$78 million for fiscal year 2010).

7. PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows as at January 31:

		2011		2010
	Cost	Net book value	Cost	Net book value
Land	\$ 102	\$ 102	\$ 99	\$ 99
Buildings	2,056	948	1,943	899
Equipment	1,277	479	1,149	433
Other	276	238	240	212
	\$ 3,711	\$ 1,767	\$ 3,431	\$ 1,643

Included in the above table are assets under capital lease, where the Corporation is the lessee, with a cost and net book value amounting to \$185 million and \$110 million, respectively, as at January 31, 2011 (\$147 million and \$79 million, respectively, as at January 31, 2010).

Also included in the above table are assets under construction amounting to \$185 million as at January 31, 2011 (\$88 million as at January 31, 2010).

Amortization of PP&E amounted to \$165 million for fiscal year 2011 (\$168 million for fiscal year 2010).

8. INTANGIBLE ASSETS

Intangible assets were as follows as at January 31:

	2011		2010	
	Cost	Net book value	Cost	Net book value
Aerospace program tooling				
Business aircraft	\$ 2,570	\$ 860	\$ 2,237	\$ 618
Commercial aircraft	2,475	1,200	2,028	822
Licences, patents and trademarks	290	91	297	113
Other	574	153	522	143
	\$ 5,909	\$ 2,304	\$ 5,084	\$ 1,696

Intangible assets capitalized amounted to \$828 million for fiscal year 2011 (\$583 million for fiscal year 2010), of which \$780 million (\$512 million for fiscal year 2010) were capitalized in aerospace program tooling. Of the amount of intangible assets capitalized during fiscal year 2011, \$176 million were acquired from third party and \$652 million were internally generated (\$162 million and \$421 million, respectively, during fiscal year 2010).

Interest capitalized totalled \$48 million for fiscal year 2011 (\$36 million for fiscal year 2010).

Amortization of intangible assets was as follows for fiscal years:

	2011	2010
Aerospace program tooling	\$ 160	\$ 243
Other	71	75
	\$ 231	\$ 318

9. GOODWILL

Goodwill is mainly related to the DaimlerChrysler Rail Systems GmbH ("Adtranz") acquisition in May 2001. Changes in the goodwill balance were as follows for fiscal years:

	2011	2010
Balance at beginning of year	\$ 2,247	\$ 2,010
Effect of foreign currency exchange rate changes	111	237
Balance at end of year	\$ 2,358	\$ 2,247

The Corporation completed the required annual impairment review during the fourth quarter of fiscal year 2011 and did not identify any impairment.

10. OTHER ASSETS

Other assets were as follows as at January 31:

	2011	2010
Investment in securities ⁽¹⁾	\$ 415	\$ 328
Prepaid expenses	285	179
Investment in VIEs	187	180
Deferred financing charges	65	99
Restricted cash	58	40
Investment in companies subject to significant influence ⁽²⁾	57	33
Servicing asset	49	48
Other	77	99
	\$ 1,193	\$ 1,006

⁽¹⁾ Includes an amount of \$152 million held in an aircraft financing structure to support certain of the Corporation's financial obligations as at January 31, 2011 (\$148 million as at January 31, 2010).

⁽²⁾ The Corporation has pledged shares in investees subject to significant influence, with a carrying value of \$33 million as at January 31, 2011 (\$26 million as at January 31, 2010). Investment in companies subject to significant influence includes \$10 million of loans as at January 31, 2011 (\$9 million as at January 31, 2010), mostly related to BT.

11. CREDIT FACILITIES

Letter of credit facilities

The letter of credit facilities and their maturities were as follows as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (fiscal year)
January 31, 2011				
BT facility	\$ 5,212 ⁽¹⁾	\$ 3,633	\$ 1,579	2014 ⁽²⁾
BA facility	600	211	389	2012
PSG facility	900	352	548	2012 ⁽³⁾
	\$ 6,712	\$ 4,196	\$ 2,516	
January 31, 2010				
BT facility	\$ 5,201 ⁽¹⁾	\$ 3,921	\$ 1,280	2014 ⁽²⁾
BA facility	600	484	116	2012
PSG facility	900	377	523	2011 ⁽³⁾
	\$ 6,701	\$ 4,782	\$ 1,919	

⁽¹⁾ €3,800 million as at January 31, 2011 (€3,750 million as at January 31, 2010).

⁽²⁾ In December 2011, if the facility is not renewed, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2013.

⁽³⁾ The performance security guarantee facility ("PSG facilities") is renewed and extended annually if mutually agreed. In June 2010, the facility was extended until June 2011, and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$708 million were outstanding under various bilateral agreements as at January 31, 2011 (\$453 million as at January 31, 2010).

The Corporation also uses numerous bilateral facilities with insurance companies to support BT's operations. An amount of \$2.0 billion was outstanding under such facilities as at January 31, 2011 (\$1.5 billion as at January 31, 2010).

Revolving credit facility

On September 1, 2009, the Corporation entered into a \$500-million two-year unsecured revolving credit facility bearing interest at the applicable LIBOR rate plus a margin based on Bombardier's credit rating, with a syndicate of commercial banks and other institutions. This facility is available for cash drawings for the general working capital needs of the Corporation, and was unused since its inception in September 2009.

Financial covenants

The Corporation is subject to various financial covenants under its BA and BT letter of credit facilities and its revolving credit facility, which must be met on a quarterly basis. The BA letter of credit and revolving credit facilities include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio, all calculated based on an adjusted consolidated basis i.e. excluding BT. The BT financial covenants require minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics or to the specific terms used in the MD&A.

In addition, the Corporation must maintain a minimum BT liquidity of €600 million (\$823 million) at the end of each calendar quarter and a requirement to maintain a minimum BA liquidity of \$500 million at the end of each fiscal quarter. The Corporation must also maintain €404 million (\$554 million) of invested collateral under the BT facility and \$121 million under the BA facility. These conditions were all met as at January 31, 2011 and January 31, 2010.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

Other off-balance sheet facilities

In the normal course of its business, BT has set up factoring facilities in Europe to which it can sell, without credit recourse, qualifying trade receivables. The amount committed under such facilities was €270 million (\$370 million) as at January 31, 2011. Trade receivables of €248 million (\$340 million) were outstanding under such facilities as at January 31, 2011 (€140 million (\$194 million) as at January 31, 2010). Trade receivables of €442 million (\$584 million) were sold to these facilities during fiscal year 2011 (€386 million (\$542 million) during fiscal year 2010).

In addition, BA has set up sale and leaseback facilities under which it can sell pre-owned business aircraft for a total committed amount of \$275 million. An amount of \$219 million was outstanding under such facilities as at January 31, 2011 (\$180 million as at January 31, 2010). Aircraft worth \$303 million were sold and leased-back to these facilities during fiscal year 2011 (\$217 million during fiscal year 2010).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at January 31:

	2011	2010
Trade accounts payable	\$ 2,234	\$ 2,311
Accrued liabilities	1,420	1,239
Product warranties	1,137	1,040
Sales incentives ⁽¹⁾	885	968
Payroll-related liabilities	648	486
Supplier contributions to aerospace programs	314	150
Income and other taxes	166	206
Interest payable	89	56
Severance and other involuntary termination costs	70	82
Other	1,064	889
	\$ 8,027	\$ 7,427

⁽¹⁾ Comprised of provision for credit and residual value guarantees and trade-in commitments, as well as other related provisions and related liabilities in connection with the sale of aircraft (see Note 25 – Commitments and contingencies). The carrying value of related liabilities in connection with the sale of aircraft is \$161 million as at January 31, 2011 (\$196 million as at January 31, 2010). The amount contractually required to be paid for these liabilities is \$215 million as at January 31, 2011 (\$228 million as at January 31, 2010).

Product warranties – Product warranties typically range from one to five years, except for aircraft structural warranties that extend up to 20 years.

Changes in the product warranty provision were as follows for fiscal years 2011 and 2010:

	BA	BT	Total
Balance as at January 31, 2009	\$ 280	\$ 651	\$ 931
Current expense	66	378	444
Changes in estimates	-	(94)	(94)
Cash paid	(67)	(239)	(306)
Effect of foreign currency exchange rate changes	-	65	65
Balance as at January 31, 2010	279	761	1,040
Current expense	82	346	428
Changes in estimates	-	(53)	(53)
Cash paid	(90)	(214)	(304)
Effect of foreign currency exchange rate changes	-	26	26
Balance as at January 31, 2011	\$ 271	\$ 866	\$ 1,137

13. LONG-TERM DEBT

Long-term debt was as follows as at January 31:

							2011	2010
	Amount in currency of origin 2011/2010	Currency	Interest rate			Maturity	Amount	Amount
			Fixed/ Variable ⁽¹⁾	Contractual 2011/2010 ⁽¹⁾	After effect of hedges 2011/2010			
Senior notes	nil/679	EUR	Variable	3.90%/4.53%	n/a	Nov. 2013	\$ -	\$ 933
	nil/385	USD	Fixed	8.00%	nil/3-month Libor + 2.91	Nov. 2014	-	419
	785	EUR	Fixed	7.25%	3-month Libor + 4.83	Nov. 2016	1,129	1,139
	650/nil	USD	Fixed	7.50%/nil	3-month Libor + 4.19	Mar. 2018	658	-
	850/nil	USD	Fixed	7.75%/nil	3-month Libor + 4.14	Mar. 2020	855	-
	780/nil	EUR	Fixed	6.125%/nil	n/a	May 2021	1,042	-
Notes	151/550	USD	Fixed	6.75%	3-month Libor + 2.26/ 3-month Libor + 2.28	May 2012	159	597
	162/500	USD	Fixed	6.30%	3-month Libor + 1.59/ 3-month Libor + 1.60	May 2014	184	550
	250	USD	Fixed	7.45%	n/a	May 2034	247	247
Debentures	150	CAD	Fixed	7.35%	n/a	Dec. 2026	149	139
Other ⁽²⁾	212/138 ⁽³⁾	Various	Fix./var.	5.54%/7.42%	n/a	2011-2027	212	138
							\$ 4,635	\$ 4,162

⁽¹⁾ For variable-rate debt, the interest rate represents the average rate for the fiscal year. Interests on long-term debt as at January 31, 2011 are payable semi-annually, except for the other debts for which the timing of interest payments is variable.

⁽²⁾ Includes \$112 million relating to obligations under capital leases as at January 31, 2011 (\$76 million as at January 31, 2010).

⁽³⁾ Amounts are expressed in U.S. dollars.

n/a: Not applicable

All long-term debt ranks pari-passu and is unsecured.

Subsequent to year-end, the Corporation entered into interest-rate swap agreements to convert the effective rate on the €780 million senior notes from fixed to variable. The interest rate after the effect of these fair value hedges is 3-month Euribor + 2.866.

The carrying value of long-term debt includes principal repayments, transaction costs and the basis adjustments related to derivatives designated in fair value hedge relationships. The following table presents the contractual principal repayments of the long-term debt:

	Debt	Capital leases	Total
2012	\$ 3	\$ 14	\$ 17
2013	162	14	176
2014	11	13	24
2015	173	9	182
2016	13	9	22
Thereafter	4,098	53	4,151
	\$ 4,460	\$ 112	\$ 4,572

14. SHARE CAPITAL

Preferred shares

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2011 and 2010:

12,000,000 Series 2 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at \$25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15 th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than \$24.90 Cdn per share or more than \$25.10 Cdn per share.

12,000,000 Series 3 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at \$25.00 Cdn per share on August 1, 2012 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007 and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or \$1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.32919 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

9,400,000 Series 4 Cumulative Redeemable Preferred Shares

Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at \$25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of \$2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or \$1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.390625 Cdn per share.

Common shares

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2011 and 2010:

1,892,000,000 Class A shares (Multiple Voting)

Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

1,892,000,000 Class B shares (Subordinate Voting)

Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of \$0.0015625 Cdn per share, in priority to the Class A shares (Multiple Voting), payable quarterly on the last day of January, May, July and October of each year at a rate of \$0.000390625 Cdn per share, if declared.

The Board of Directors of the Corporation authorized the payment of a quarterly dividend on each Class A shares (Multiple Voting) and each Class B shares (Subordinate Voting) of the Corporation. As a result, if and when declared payable by the Board of Directors, holders of these shares are entitled to a quarterly dividend of \$0.025 Cdn per share.

In connection with the PSU plan, the trustee has purchased 10,539,000 Class B shares (Subordinate Voting) of the Corporation in the open market for \$50 million during fiscal year 2011 (7,068,000 Class B shares for \$21 million during fiscal year 2010) (see Note 15 – Share-based plans).

In connection with the new DSU plan, the Board of Directors of the Corporation authorized the repurchase for cancellation, in the normal course of the Corporation's activities from April 9, 2010 to April 8, 2011, of up to 3,000,000 Class B Shares (Subordinate Voting) and up to 660,000 Class A Shares (Multiple Voting). During fiscal year 2011, 3,000,000 Class B Shares (Subordinate Voting) were repurchased and cancelled, for a total amount of \$16 million.

15. SHARE-BASED PLANS

PSU and DSU plans

The Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During fiscal year 2011, a combined total of 10,576,000 PSUs and DSUs were authorized for issuance (6,712,000 PSUs and DSUs during fiscal year 2010).

The number of PSUs and DSUs has varied as follows for fiscal years:

	2011		2010	
	PSU	DSU	PSU	DSU
Balance at beginning of year	15,888,267	1,124,000	15,006,293	-
Granted	8,181,500	1,842,000	5,059,700	1,164,000
Performance adjustment	2,725,988	-	1,874,374	-
Exercised	(8,177,963)	-	(5,623,122)	-
Cancelled	(392,608)	-	(428,978)	(40,000)
Balance at end of year	18,225,184	2,966,000	15,888,267	1,124,000

PSUs and DSUs granted will vest if the pre-determined return on equity targets are attained during the vesting period. The conversion ratio for vested PSUs and DSUs ranges from 70% to 150%. PSUs and DSUs generally vest three years following the grant date if the financial performance threshold are met. For grants issued between fiscal years 2009 and 2011, their vesting date varies between June 10, 2011 and December 13, 2013.

The weighted-average grant date fair value of PSUs and DSUs granted during fiscal year 2011 was \$4.30 (\$2.90 during fiscal year 2010). The fair value of each PSUs and DSUs granted was measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs and DSUs that are expected to vest.

The Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see Note 14 – Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of \$39 million was recorded with respect to the PSU and DSU plans during fiscal year 2011 (\$36 million during fiscal year 2010).

Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 63,586,694 were available for issuance under these share option plans as at January 31, 2011.

Current share option plan – Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options terminate no later than seven years after the grant date.

The summarized information on the current share option plan is as follows as at January 31, 2011:

Exercise price range (Cdn\$)	Issued and outstanding		
	Number of options	Weighted- average remaining life (years)	Weighted- average exercise price (Cdn\$)
2 to 4	2,512,414	5.36	3.45
4 to 6	3,876,000	6.36	4.72
	6,388,414		

The number of options issued and outstanding under the current share option plan has varied as follows for fiscal years:

	2011		2010	
	Number of options	Weighted- average exercise price (Cdn\$)	Number of options	Weighted- average exercise price (Cdn\$)
Balance at beginning of year	2,580,000	3.45	-	-
Granted	3,870,000	4.72	2,620,000	3.45
Cancelled	(61,586)	3.45	(40,000)	3.45
Balance at end of year	6,388,414	4.22	2,580,000	3.45
Options exercisable at end of year	-	-	-	-

Performance share option plan – For options issued to key employees after May 27, 2003 and before June 1, 2009, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. As the weighted-average trading price has not been reached within such 12-month period, the target price threshold applicable is the last vesting tranche. The options terminate no later than seven years after the grant date. As at January 31, 2011, target prices ranged between \$4 Cdn and \$11 Cdn.

The summarized information on the performance share option plan is as follows as at January 31, 2011:

Exercise price range (Cdn\$)	Number of options	Issued and outstanding			Exercisable	
		Weighted- average target price (Cdn\$)	Weighted- average remaining life (years)	Weighted- average exercise price (Cdn\$)	Number of options	Weighted- average exercise price (Cdn\$)
2 to 4	7,855,375	4.52	1.95	2.96	7,602,875	2.97
4 to 6	12,704,400	8.99	1.56	4.79	3,758,213	5.50
6 to 8	449,000	9.60	0.94	7.05	134,750	7.19
8 to 10	5,489,000	8.00	4.36	8.53	2,744,500	8.53
	26,497,775				14,240,338	

The number of options has varied as follows for fiscal years:

	2011		2010	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	31,254,075	4.90	33,817,321	4.85
Granted	-	-	10,000	3.48
Exercised	(1,357,788)	3.32	(646,746)	2.83
Cancelled	(860,000)	5.04	(1,647,250)	4.84
Expired	(2,538,512)	3.99	(279,250)	3.91
Balance at end of year	26,497,775	5.06	31,254,075	4.90
Options exercisable at end of year	14,240,338	4.75	11,562,513	4.25

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options are all vested, and terminate no later than 10 years after the grant date.

The exercise prices of these options range from \$12 Cdn to \$15 Cdn and \$15 Cdn to \$25 Cdn with a weighted-average remaining life of 1.15 years and 0.33 years, respectively, and a weighted-average exercise price of \$14.58 Cdn and \$21.63 Cdn, respectively, as at January 31, 2011. For options ranging from \$12 Cdn to \$15 Cdn, the numbers of options issued, outstanding and exercisable amounted to 1,828,000, with a weighted-average exercise price of \$14.58 Cdn as at January 31, 2011 (2,143,000 options and \$14.58 Cdn as at January 31, 2010). For options ranging from \$15 Cdn to \$25 Cdn, the numbers of options issued, outstanding and exercisable amounted to 1,197,000, with a weighted-average exercise price of \$21.63 Cdn as at January 31, 2011 (3,024,000 options and \$20.45 Cdn as at January 31, 2010).

The number of options cancelled and expired amounted to 260,500 and 1,881,500 with a weighted-average exercise price of \$14.26 Cdn and \$19.57 Cdn, respectively, for fiscal year 2011 (419,500 and 4,902,000 options and \$17.21 Cdn and \$11.10 Cdn for fiscal year 2010).

Stock-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2011 was \$1.63 per option (\$1.15 per option during fiscal year 2010). The fair value of each option granted was determined using a Black-Scholes option pricing model, modified to incorporate target prices related to the performance share option plan in the fair value calculation for options issued before June 1, 2009 when appropriate. The share price at the grant date and the weighted-average assumptions were as follows for fiscal years:

	2011	2010
Risk-free interest rate	2.65%	2.82%
Expected life	5 years	5 years
Expected volatility in market price of shares	48.04%	50.79%
Expected dividend yield	2.09%	2.10%

A compensation expense of \$8 million was recorded during fiscal year 2011 with respect to share option plans (\$10 million during fiscal year 2010).

Employee share purchase plan

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary to a yearly

maximum of \$30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to \$6 million for fiscal year 2011 (\$5 million for fiscal year 2010). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the AOCI were as follows for fiscal years 2011 and 2010:

	AFS financial assets	Cash flow hedges	CTA	Total
Balance as at January 31, 2009	\$ (17)	\$ (455)	\$ (329)	\$ (801)
Change during the year	20	380	212	612
Balance as at January 31, 2010	3	(75)	(117)	(189)
Change during the year	7	(106)	128 ⁽¹⁾	29
Balance as at January 31, 2011	\$ 10	\$ (181)	\$ 11	\$ (160)

⁽¹⁾ Excludes a gain of \$1 million attributable to non-controlling interests for fiscal year 2011 (nil for fiscal year 2010).

17. OTHER EXPENSE (INCOME)

Other expense (income) was as follows for fiscal years:

	2011	2010
Foreign exchange gains	\$ (31)	\$ (6)
Severance and other involuntary termination costs (including changes in estimates and capacity adjustments)	27	100
Gain on disposals of PP&E	(11)	(19)
Impairment of PP&E	8	-
Net loss (gain) on financial instruments ⁽¹⁾	6	(56)
Income from equity accounted investees	(2)	(4)
Gain related to disposal of businesses	-	(20)
Other	25	(21)
	\$ 22	\$ (26)

⁽¹⁾ Net loss (gain) on certain financial instruments classified as HFT, including foreign exchange embedded derivatives and financing rate commitments.

18. FINANCING INCOME AND FINANCING EXPENSE

Financing income and financing expense were as follows for fiscal years:

	2011	2010
Financing income		
Gain on repurchase of long-term debt	\$ (47)	\$ -
Loans and lease receivables – after effect of hedges	(33)	(31)
Net gain on financial instruments ⁽¹⁾	(21)	(17)
Cash and cash equivalents	(19)	(26)
Invested collateral	(9)	(14)
Other	(8)	(8)
	\$ (137) ⁽²⁾	\$ (96) ⁽²⁾
Financing expense		
Interest on long-term debt – after effect of hedges	\$ 227	\$ 223
Accretion expense on certain sales incentives	28	36
Other	1	20
	\$ 256 ⁽³⁾	\$ 279 ⁽³⁾

⁽¹⁾ Certain financial instruments required to be classified as HFT, including certain call options on long-term debt.

⁽²⁾ Of which \$21 million represent the interest income calculated using the effective interest method for financial assets classified as L&R for fiscal year 2011 (\$11 million for fiscal year 2010).

⁽³⁾ Of which \$228 million represent the interest expense calculated using the effective interest method for financial liabilities classified as other than HFT for fiscal year 2011 (\$236 million for fiscal year 2010).

19. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax assets and liabilities were as follows as at January 31:

	2011	2010
Operating losses carried forward	\$ 1,261	\$ 1,226
Inventories	241	321
Advances and progress billings in excess of related long-term contract costs and advances on aerospace programs	421	409
Warranty and other provisions	500	330
PP&E	(77)	(131)
Intangible assets	(6)	39
Derivative financial instruments, net	52	27
Accrued benefit liabilities	(23)	4
Other	(57)	2
	2,312	2,227
Valuation allowance	(1,193)	(1,126)
Net amount	\$ 1,119	\$ 1,101

The net amount of deferred income taxes is composed as follows as at January 31:

	2011	2010
Deferred income tax assets	\$ 1,172	\$ 1,166
Deferred income tax liabilities	(53)	(65)
	\$ 1,119	\$ 1,101

Details of income tax expense were as follows for fiscal years:

	2011	2010
Current income taxes	\$ 155	\$ 217
Deferred income taxes		
Recognition of previously unrecognized tax benefits	(180)	(181)
Write down of deferred income tax assets	9	15
Non-recognition of tax benefits related to losses and temporary differences	52	83
Changes in temporary differences	120	63
Effect of substantively enacted income tax rate changes	6	11
	7	(9)
Income tax expense	\$ 162	\$ 208

The reconciliation of income taxes, computed at the Canadian statutory rates of 29.98% in fiscal year 2011 and 31.29% in fiscal year 2010, to income tax expense was as follows for fiscal years:

	2011	2010
Income tax expense at statutory rate	\$ 279	\$ 286
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax benefits	(180)	(181)
Write-down of deferred income tax assets	9	15
Non-recognition of tax benefits related to losses and temporary differences	52	83
Effect of substantively enacted income tax rate changes	6	11
Permanent differences	1	18
Income tax rates differential of foreign investees	(2)	(21)
Other	(3)	(3)
Income tax expense	\$ 162	\$ 208

The net operating losses carried forward and temporary differences (which are available to reduce future taxable income of certain subsidiaries) for which a valuation allowance has been recognized amounted to \$4,220 million as at January 31, 2011 (\$4,039 million as at January 31, 2010). Of these amounts, approximately \$1,085 million relate to the Corporation's operations in Germany as at January 31, 2011, where a minimum income tax is payable on 40% of taxable income (\$1,767 million as at January 31, 2010). These amounts have essentially no expiration dates.

In addition, as at January 31, 2011, the Corporation has \$92 million of unused investment tax credits, most of which can be carried forward for 20 years, and \$18 million of available net capital losses, most of which can be carried forward indefinitely (nil and \$261 million as at January 31, 2010). Net capital losses can only be used against future taxable capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no income taxes have been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

20. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for fiscal years:

(Number of shares, stock options, PSUs and DSUs, in thousands)	2011	2010
Net income attributable to shareholders of Bombardier Inc.	\$ 755	\$ 698
Preferred share dividends, net of tax	(24)	(21)
Net income attributable to common shareholders of Bombardier Inc.	\$ 731	\$ 677
Weighted-average basic number of common shares outstanding	1,727,200	1,729,810
Net effect of stock options, PSUs and DSUs	18,870	25,223
Weighted-average diluted number of common shares outstanding	1,746,070	1,755,033
EPS (in dollars):		
Basic and diluted	\$ 0.42	\$ 0.39

The effect of the exercise of stock options was included in the calculation of diluted EPS in the above table, except for 22,284,588 stock options for fiscal year 2011 (30,761,517 for fiscal year 2010) since the average market value of the underlying shares was lower than the exercise price or because the predetermined target market price thresholds for the Corporation's Class B Shares (Subordinate Voting) had not been met.

21. NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows for fiscal years:

	2011	2010
Receivables	\$ (77)	\$ 167
Aircraft financing	(207)	(61)
Inventories	179	466
Fractional ownership deferred costs and revenues, net	(43)	(67)
Derivative financial instruments, net	103	(7)
Accounts payable and accrued liabilities	446	143
Advances and progress billings in excess of related long-term contract costs	392	(401)
Advances on aerospace programs	(155)	(899)
Accrued benefit liabilities, net	(93)	(71)
Other	(50)	59
	\$ 495	\$ (671)

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts disclosed in these Consolidated Financial Statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the Corporation has immediate access. However, there is no active market for most of the Corporation's financial instruments. In the absence of an active market, the Corporation determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, credit spreads, default probability, currency rates, and price and rate volatilities, as

applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

Methods and assumptions

The methods and assumptions used to measure the fair value are as follows:

- **Financial instruments whose carrying value approximates fair value** – The fair values of receivables, commercial aircraft loans and lease receivables, business aircraft loans, restricted cash, trade account payables and accrued liabilities, interest and certain payroll-related liabilities, measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because the terms and conditions of loans or lease receivables are comparable to current market terms and conditions for similar items.
- **Invested collateral** – The fair value is determined using external quotations when available. When not available, discounted cash flow analyses are used based on both market data and internal assumptions. The market data used for the discounted cash flow analysis relate to yield curves and credit spreads.
- **Commercial aircraft loans and lease receivables designated as HFT** – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using market data for interest rates, published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumption to take into account factors that market participants would consider when pricing these financial assets, when relevant. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting the specific factors of the current aircraft market.
- **Related liabilities in connection with the sale of aircraft** – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of related liabilities incurred in connection with the sale of commercial aircraft. The fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating.
- **Derivative financial instruments** – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts, i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts, i.e. taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flows analyses and public quotations to estimate the fair value of forward agreements and interest-rate derivatives. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rates.

The Corporation uses an option-pricing model adjusted for aircraft financing specific factors to estimate the fair value of financing rate commitments. The fair value is calculated using market data such as interest rates, credit spreads, published credit ratings, when available, and default probabilities. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting the specific factors of the current aircraft market.

The Corporation uses an option-adjusted spread model to estimate the fair value of call feature on long-term debt, using market data such as interest-rate swap curves and external quotations.

- **Long-term debt** – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

Fair value hierarchy

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (level 2); and
- inputs for the asset or liability that are not based on observable market data (level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows as at January 31, 2011:

	Total	Level 1	Level 2	Level 3
Financial assets				
Invested collateral	\$ 676	\$ 35	\$ 641	\$ -
Commercial aircraft loans and lease receivables	407	-	-	407
Derivative financial instruments ⁽¹⁾	535	-	535	-
Servicing fees	49	-	-	49
Investment in securities ⁽²⁾	386	255	130	1
Investment in VIEs	187	-	150	37
	\$ 2,240	\$ 290	\$ 1,456	\$ 494
Financial liabilities				
Related liabilities	\$ 161	\$ -	\$ -	\$ 161
Derivatives financial instruments ⁽¹⁾	655	-	653	2
	\$ 816	\$ -	\$ 653	\$ 163

⁽¹⁾ Derivatives financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and embedded derivatives.

⁽²⁾ Excludes \$2 million of investments held at cost.

Changes in level 3 financial instruments were as follows for fiscal year 2011:

	Commercial Aircraft loans and lease receivables	Servicing fees	Investment in VIEs	Investment in securities	Related liabilities	Embedded derivatives
Balance as at January 31, 2010	\$ 280	\$ 48	\$ 30	\$ 1	\$ (196)	\$ (9)
Gains (losses) included in net income	18	2	4	-	(11)	7
Issuances	131	-	3	-	(5)	-
Settlement	(22)	(1)	-	-	51	-
Balance as at January 31, 2011	\$ 407	\$ 49	\$ 37	\$ 1	\$ (161)	\$ (2)

Sensitivity to selected changes of assumptions for level 3 hierarchy

When measuring level 3 financial instruments at fair value, some assumptions may not be derived from an observable market. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at:

Impact on EBIT (gain (loss))

	January 31, 2011		
	Change in carrying value	Change of assumption	
	Change in fair value recognized in net income during fiscal year 2011	Downgrade the credit rating of unrated customers by 1 notch	Increase the liquidity risk by 100 bps
Commercial aircraft loans and lease receivables	\$ (5)	\$ (11)	\$ (28)

23. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest rate risk.

Credit risk

The Corporation is exposed to credit risk through its normal treasury activities on its derivative instruments, invested collateral and other investing activities. The Corporation is also exposed to credit risk through its trade receivables arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Corporate Investment Management Policy (the "Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and highly-rated market funds based on pre-established limits per financial institution.

Credit risks arising from the Corporation's normal commercial activities, lending activities and indirect financing support are managed and controlled by the two manufacturing segments, BA and BT. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessments and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

Maximum exposure to credit risk – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in Note 3 – Financial Instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows:

	January 31, 2011		January 31, 2010	
	HFT	AFS	HFT	AFS
Aircraft financing	\$ 372	n/a	\$ 248	n/a
Derivative financial instruments ⁽¹⁾	\$ 9	n/a	\$ 52	n/a
Other assets	\$ 200	\$ 298	\$ 198	\$ 279

⁽¹⁾ Comprised of derivative financial instruments HFT, excluding embedded derivatives.

n/a: Not applicable

Credit quality – The credit quality, using external and internal credit rating system, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables, aircraft financing and servicing fees. BA receivables are usually not externally or internally quoted, however the credit quality of customers are dynamically reviewed and are based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft financing are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft financing portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to Note 25 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

Liquidity risk

The Corporation manages liquidity risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness (including off-balance sheet indebtedness), access to capital markets, the level of customer advances and progress billings in excess of related long-term contract costs, working capital requirements and the funding of product developments. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

Maturity analysis –The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows as at January 31, 2011:

	Carrying amount	Undiscounted cash flows (before giving effect to the related hedging instruments)						
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	Total
Cash and cash equivalents	\$ 4,195	\$ 4,195	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,195
Invested collateral	676	122	554	-	-	-	-	676
Trade receivables and other	1,880	1,812	37	31	-	-	-	1,880
Aircraft financing	498	46	70	71	215	272	-	674
Other financial assets	770	147	92	69	78	433	74	893
Assets	\$ 8,019	\$ 6,322	\$ 753	\$ 171	\$ 293	\$ 705	\$ 74	\$ 8,318
Trade and other payables	\$ 4,111	\$ 3,755	\$ 110	\$ 42	\$ 71	\$ 28	\$ 178	\$ 4,184
Long-term debt								
Principal	4,635	17	200	204	2,666	1,485	-	4,572
Interest	-	320	619	597	999	357	-	2,892
Liabilities	\$ 8,746	\$ 4,092	\$ 929	\$ 843	\$ 3,736	\$ 1,870	\$ 178	\$ 11,648
Net amount		\$ 2,230	\$ (176)	\$ (672)	\$ (3,443)	\$ (1,165)	\$ (104)	\$ (3,330)

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at January 31, 2011:

	Nominal value (USD equivalent)	Undiscounted net cash flows ⁽¹⁾					Total
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	
Derivative financial assets							
Forward foreign exchange contracts	\$ 8,373	\$ 361	\$ 67	\$ -	\$ -	\$ -	\$ 428
Interest-rate derivatives	1,763	59	48	39	(21)	(62)	63
	\$ 10,136	\$ 420	\$ 115	\$ 39	\$ (21)	\$ (62)	\$ 491
Derivative financial liabilities							
Forward foreign exchange contracts	\$ 10,004	\$ (524)	\$ (58)	\$ -	\$ -	\$ -	\$ (582)
Interest-rate derivatives	1,517	10	4	(38)	(79)	-	(103)
	\$ 11,521	\$ (514)	\$ (54)	\$ (38)	\$ (79)	\$ -	\$ (685)

⁽¹⁾ Amounts denominated in foreign currency are translated using the exchange rate as at January 31, 2011.

Market risk

Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks, in the ordinary course of business, through its international operations in particular to the Canadian dollar, pound sterling and euro. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's Consolidated Financial Statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions that would result in the creation of an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments' management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the policy requirements.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in currency. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments are also mitigating foreign currency risks by maximizing transactions in the functional currency of each operation such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item.

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded on its balance sheet. The following impact on EBT is before giving effect to hedge relationships.

Gain (loss)	Variation in the foreign currency	Effect on EBT					
		CAD/USD	GBP/USD	USD/EUR	EUR/SEK	EUR/CHF	Other
As at January 31, 2011	+10%	\$ (6)	\$ (4)	\$ (11)	\$ -	\$ 3	\$ (18)

The following impact on OCI is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, any change in fair value is mostly offset by changes in opposite direction of the underlying exposure.

Gain (loss)	Variation in the foreign currency	Effect on OCI before income taxes					
		CAD/USD	GBP/USD	USD/EUR	EUR/SEK	EUR/CHF	Other
As at January 31, 2011	+10%	\$ 48	\$ 58	\$ (85)	\$(55)	\$ 101	\$ 40

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable rate financial assets and liabilities including long-term debt synthetically converted to a variable interest rate (see Note 13 – Long-term debt). The Corporation is also exposed to changes in interest rates for certain financing commitments when a financing rate has been guaranteed to a customer in the future. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy by matching asset and liability positions, including the use of financial instruments such as interest rate swap agreements. Derivative financial instruments used to synthetically convert interest rate exposures consist mainly of interest rate swap agreements, cross currency interest-rate swap agreements and interest-rate cap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain commercial aircraft loans and lease receivables, investments in securities, invested collateral, related liabilities in connection with the sale of aircraft and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements.

Sensitivity analysis

Interest rate risk is primarily related to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of January 31, 2011 and 2010, the impact on income before income taxes would have been a negative adjustment of \$69 million as at January 31, 2011 (\$48 million as at January 31, 2010).

24. EMPLOYEE FUTURE BENEFITS

Defined benefit pension plans – The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Salaried employees' defined benefit pension plans are generally based on salary and years of service. Some of the hourly employees' defined benefit pension plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuations for funding purposes of the Corporation's funded pension plans, excluding the U.K. plans, were prepared with effective dates of December 31, 2009. In the U.K., the most recent actuarial valuations for funding purposes were prepared with effective dates ranging between December 31, 2006, and December 31, 2008. The next effective valuation date for funding purposes for most of the Corporation's funded pension plans is December 31, 2010.

Benefits other than pension – The Corporation provides post-employment and other post-retirement benefit plans. These benefit plans consist essentially of self-insured long-term disability plans in Canada and post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets and liabilities recognized in the consolidated balance sheets as at January 31:

Amounts recognized						
	2011			2010		
	Canada	Foreign	Total	Canada	Foreign	Total
Accrued benefit assets						
Pension plans	\$ 602	\$ 607	\$ 1,209	\$ 535	\$ 535	\$ 1,070
Accrued benefit liabilities						
Pension plans	\$ (62)	\$ (700)	\$ (762)	\$ (64)	\$ (668)	\$ (732)
Benefits other than pension	(319)	(51)	(370)	(303)	(49)	(352)
	\$ (381)	\$ (751)	\$ (1,132)	\$ (367)	\$ (717)	\$ (1,084)

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year-ends):

Actuarial assumptions								
	2011				2010			
			Pension benefits	Other benefits			Pension benefits	Other benefits
(in percentage)	Canada	Foreign	Total		Canada	Foreign	Total	
Projected benefit obligation								
Discount rate	5.20	5.34	5.28	5.25	6.00	5.64	5.79	5.99
Rate of compensation increase	3.50	3.89	3.72	3.52	3.50	3.89	3.74	3.53
Inflation rate	2.50	2.72	2.62	n/a	2.50	2.88	2.72	n/a
Benefit cost								
Discount rate	6.00	5.64	5.79	5.99	6.60	5.62	6.01	6.50
Expected long-term rate of return on plan assets	7.01	6.99	7.00	n/a	6.99	6.98	6.98	n/a
Rate of compensation increase	3.50	3.89	3.74	3.53	3.72	3.92	3.85	3.69
Inflation rate	2.50	2.88	2.72	n/a	2.50	2.66	2.60	n/a

n/a: Not applicable

As at December 31, 2010, the health care cost trend rate for benefits other than pension, which is an annual rate of increase in the per capita cost of covered health and dental care benefits, is generally assumed to be 8% and to decrease progressively to 5% by fiscal year 2018 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects as at January 31, 2011 and for fiscal year 2011:

		Increase	Decrease
Effect on projected benefit obligation	\$	32	\$ (28)
Effect on the total service and interest cost	\$	3	\$ (2)

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31, and its allocation by major countries as at the December 31 measurement date preceding the fiscal year-ends:

Projected benefit obligation								
			2011				2010	
			Pension benefits	Other benefits			Pension benefits	Other benefits
	Canada	Foreign	Total		Canada	Foreign	Total	
Obligation at beginning of the year	\$ 2,915	\$ 3,835	\$ 6,750	\$ 369	\$ 2,141	\$ 3,235	\$ 5,376	\$ 299
Interest cost	186	213	399	22	159	204	363	20
Actuarial net loss (gain)	419	60	479	(12)	244	62	306	26
Current service cost	90	101	191	23	67	105	172	8
Plan amendments	8	-	8	(2)	35	7	42	(3)
Plan participants' contributions	20	15	35	-	20	16	36	-
Benefits paid	(122)	(138)	(260)	(22)	(108)	(140)	(248)	(20)
Curtailment	-	3	3	-	(19)	1	(18)	(7)
Settlement	-	(8)	(8)	-	-	(8)	(8)	-
Other	2	-	2	-	-	-	-	-
Effect of exchange rate changes	214	86	300	23	376	353	729	46
Obligation at end of the year	\$ 3,732	\$ 4,167	\$ 7,899	\$ 401	\$ 2,915	\$ 3,835	\$ 6,750	\$ 369
Canada			\$ 3,732	\$ 353			\$ 2,915	\$ 323
U.K.			2,637	12			2,438	10
U.S.			659	31			576	30
Germany			423	-			401	-
Switzerland			277	-			237	-
Other			171	5			183	6
			\$ 7,899	\$ 401			\$ 6,750	\$ 369

The following table presents the changes in fair value of plan assets for defined benefit pension plans for the 12-month period ended December 31, and its allocation by major countries as at the December 31 measurement date preceding the fiscal year-ends:

Pension plan assets

	2011			2010		
	Canada	Foreign	Total	Canada	Foreign	Total
Fair value at beginning of the year	\$ 2,498	\$ 2,738	\$ 5,236	\$ 1,806	\$ 2,027	\$ 3,833
Actual return on plan assets	283	338	621	324	429	753
Employer contributions	165	222	387	134	184	318
Plan participants' contributions	20	15	35	20	16	36
Benefits paid	(122)	(138)	(260)	(108)	(140)	(248)
Settlement	-	(8)	(8)	-	(8)	(8)
Effect of exchange rate changes	182	76	258	322	230	552
Fair value at end of the year	\$ 3,026	\$ 3,243	\$ 6,269	\$ 2,498	\$ 2,738	\$ 5,236
Canada			\$ 3,026			\$ 2,498
U.K.			2,483			2,093
U.S.			498			427
Switzerland			228			186
Other			34			32
			\$ 6,269			\$ 5,236

The reconciliation of the funded status of the pension plans and of benefit plans other than pensions to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

Funded status

	2011				2010			
			Pension benefits	Other benefits			Pension benefits	Other benefits
	Canada	Foreign	Total		Canada	Foreign	Total	
Fair value of plan assets	\$ 3,026	\$ 3,243	\$ 6,269	\$ -	\$ 2,498	\$ 2,738	\$ 5,236	\$ -
Projected benefit obligation	(3,732)	(4,167)	(7,899)	(401)	(2,915)	(3,835)	(6,750)	(369)
Funded status - deficit	(706)	(924)	(1,630)	(401)	(417)	(1,097)	(1,514)	(369)
Unamortized net actuarial loss	1,029	931	1,960	74	695	1,069	1,764	62
Unamortized past service costs	175	(103)	72	(43)	184	(109)	75	(46)
Contributions paid in January	42	4	46	1	9	5	14	1
Other	-	(1)	(1)	(1)	-	(1)	(1)	-
Accrued benefit assets (liabilities)	\$ 540	\$ (93)	\$ 447	\$ (370)	\$ 471	\$ (133)	\$ 338	\$ (352)

Included in the previous table are pension plans with projected benefit obligation in excess of plan assets as follows:

Projected benefit obligation in excess of plan assets

	2011			2010		
	Canada	Foreign	Total	Canada	Foreign	Total
Fair value of plan assets	\$ 1,982	\$ 3,051	\$ 5,033	\$ 1,484	\$ 2,602	\$ 4,086
Projected benefit obligation	(2,808)	(3,994)	(6,802)	(2,041)	(3,706)	(5,747)
	\$ (826)	\$ (943)	\$ (1,769)	\$ (557)	\$ (1,104)	\$ (1,661)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December 31 measurement date:

Plan assets			
	Target allocation	Actual allocation	Actual allocation
Asset category	2011	2010	2009
Cash and cash equivalents	2%	3%	5%
Publicly traded equity securities	50%	54%	55%
Publicly traded fixed income securities	41%	37%	35%
Global infrastructure and real estate assets	7%	6%	5%

As at December 31, 2010 and 2009, the publicly traded equity securities did not include any of the Corporation's shares.

The following table provides the components of the benefit cost for fiscal years:

Benefit cost				2011			2010		
				Pension benefits	Other benefits		Pension benefits	Other benefits	
	Canada	Foreign	Total			Canada	Foreign	Total	
Current service cost	\$ 90	\$ 101	\$ 191	\$ 23	\$ 67	\$ 105	\$ 172	\$ 8	
Interest cost	186	213	399	22	159	204	363	20	
Actual return on plan assets	(283)	(338)	(621)	-	(324)	(429)	(753)	-	
Actuarial (gain) loss	419	60	479	(12)	244	62	306	26	
Plan amendments	8	-	8	(2)	35	7	42	(3)	
Curtailment	-	4	4	-	12	(5)	7	(4)	
Other	2	-	2	-	-	-	-	-	
Benefit cost (revenue) ⁽¹⁾	422	40	462	31	193	(56)	137	47	
Difference between actual and expected return on plan assets	94	143	237	-	152	237	389	-	
Difference between actual actuarial loss and the amount recognized	(391)	2	(389)	9	(240)	(17)	(257)	(15)	
Difference between plan amendments and amounts recognized	9	(8)	1	(3)	(20)	(16)	(36)	(1)	
Other	-	(1)	(1)	-	-	1	1	-	
Benefit cost recognized	\$ 134	\$ 176	\$ 310	\$ 37	\$ 85	\$ 149	\$ 234	\$ 31	

⁽¹⁾ Before adjustments to recognize the long-term nature of the plans.

Defined contribution pension plans

The Corporation also offers Canadian and foreign defined contribution pension plans covering a portion of its employees. Defined contribution plan formulas are based on a percentage of salary.

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to \$50 million for fiscal year 2011 (\$41 million for fiscal year 2010).

25. COMMITMENTS AND CONTINGENCIES

In relation to the sale of commercial aircraft and related financing commitments, the Corporation enters into various sale support arrangements including credit and residual value guarantees and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table, in addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements. Some of these off-balance sheet risks are also included in Note 26 – Variable interest entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

The table below presents the maximum potential exposure for each major group of exposure, as at January 31:

	2011	2010
Aircraft sales		
Credit (a)	\$ 1,453	\$ 1,524
Residual value (a)	2,239	2,425
Mutually exclusive exposure ⁽¹⁾	(806)	(894)
Total credit and residual value exposure	\$ 2,886	\$ 3,055
Trade-in commitments (b)	1,214	761
Conditional repurchase obligations (c)	594	599
Other⁽²⁾		
Credit and residual value (f)	159	157
Performance guarantees (g)	34	44

⁽¹⁾ Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

⁽²⁾ The Corporation has also provided other guarantees (see h) below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to \$493 million as at January 31, 2011 (\$536 million as at January 31, 2010) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft and the anticipated proceeds from other assets covering such exposures. In addition, related liabilities, which would be extinguished in the event of credit default by certain customers, amounted to \$161 million as at January 31, 2011 (\$196 million as at January 31, 2010). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the underlying aircraft and related liabilities.

Aircraft sales

a) Credit and residual value guarantees – The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2027. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 64% of the total maximum credit risk as at January 31, 2011.

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, as at January 31, 2011, and the period in which they can be exercised:

Less than 1 year	\$	58
From 1 to 5 years		758
From 5 to 10 years		1,257
From 10 to 15 years		166
	\$	2,239

b) Trade-in commitments – In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows as at January 31, 2011:

Less than 1 year	\$	468
From 1 to 3 years		417
Thereafter		329
	\$	1,214

c) Conditional repurchase obligations – In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at January 31, 2011:

Less than 1 year	\$	345
From 1 to 3 years		140
Thereafter		109
	\$	594

d) Fractional ownership put options – Under the U.S. *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled \$498 million as at January 31, 2011 (\$598 million as at January 31, 2010). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

e) Financing commitments – The Corporation is committed to arrange financing, in relation to the future sale of aircraft scheduled for delivery through fiscal year 2012. The Corporation's total financing commitment amounted to \$79 million as at January 31, 2011 (\$142 million as at January 31, 2010). In connection with these commitments, the Corporation has provided credit spread guarantees. The recorded fair value of these

guarantees amounted to \$2 million as at January 31, 2011 (\$9 million as at January 31, 2010). Such exposures from our financing rate commitments are mitigated by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from our commitment.

Other guarantees

f) Credit and residual value guarantees – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to \$47 million as at January 31, 2011 and 2010. This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements, amounting to \$112 million as at January 31, 2011 (\$110 million as at January 31, 2010), in BT. These guarantees are mainly exercisable in 2013.

g) Performance guarantees – In certain projects carried out through consortia or other partnership vehicles in BT, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other partners. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to \$34 million as at January 31, 2011 (\$42 million as at January 31, 2010), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure would amount to nil as at January 31, 2011 (\$2 million as at January 31, 2010), assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

h) Other – In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. In addition, the Corporation concluded third-party sale and leaseback transactions relating to pre-owned aircraft and other equipment. The related minimum lease payments for the next five fiscal years and thereafter are as follows:

	Buildings and equipment	Aircraft	Residual value guarantees	Total
2012	\$ 102	\$ 30	\$ 24	\$ 156
2013	83	23	129	235
2014	68	4	-	72
2015	52	2	-	54
2016	33	1	-	34
Thereafter	196	-	31	227
	\$ 534	\$ 60	\$ 184	\$ 778

Total minimum lease payments include \$213 million and \$13 million for the sale and leaseback of pre-owned aircraft and equipment, respectively. Rent expense was \$131 million for fiscal year 2011 (\$134 million for fiscal year 2010).

Other commitments

The Corporation has commitments under agreements to outsource a portion of its information technology function, as well as the logistics for the centrally located spare parts warehouses in BA. Agreements that are cancellable without substantial penalties are excluded from the table below. The related minimum payments for the next five fiscal years and thereafter are as follows:

2012	\$	51
2013		55
2014		55
2015		51
2016		47
Thereafter		157
	\$	416

The Corporation receives financial support from various levels of government related to the development of aircraft. Certain of these financial support programs require the Corporation to reimburse governments at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no reimbursement is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered.

In connection mainly with the *C-Series* family of aircraft program, \$138 million of contingently repayable investments were received for fiscal year 2011 (\$121 million for fiscal year 2010). Of these amounts, \$112 million were recorded against intangible assets, \$19 million against PP&E, \$3 million as a reduction of inventories and \$4 million as a reduction of R&D expense for fiscal year 2011 (\$84 million were recorded against intangible assets and \$37 million as a reduction of R&D expense for fiscal year 2010).

The estimated remaining undiscounted maximum amount repayable under these programs, mostly based on future deliveries of aircraft, amounted to \$476 million as at January 31, 2011 (\$404 million as at January 31, 2010).

Litigation

In the normal course of operations, the Corporation is a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings pending as at January 31, 2011, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

26. VARIABLE INTEREST ENTITIES

The following table summarizes by segment the VIEs in which the Corporation had a significant variable interest as at January 31:

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
BA				
Financing structures related to the sale of regional aircraft	\$ 5,875	\$ 3,176	\$ 6,537	\$ 3,994
BT				
Partnership arrangements	1,554	1,454	1,403	1,319
Sale support guarantee	319	307	372	366
	7,748	4,937	8,312	5,679
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	11	-	10	-
Assets and liabilities of non-consolidated VIEs	\$ 7,737	\$ 4,937	\$ 8,302	\$ 5,679

BA

Financing structures related to the sale of regional aircraft – The Corporation has provided credit and/or residual value guarantees to certain special purpose entities (“SPEs”) created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs’ long-term debt. The Corporation’s variable interests in these SPEs are in the form of credit and residual value guarantees, subordinated debt and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only one of them. For all other SPEs, consolidation is not appropriate under AcG-15. The Corporation’s maximum potential exposure relating to the non-consolidated SPEs was \$2.0 billion, of which \$436 million of provisions and related liabilities were available to cover the Corporation’s exposure as at January 31, 2011 (\$2.0 billion and \$572 million respectively as at January 31, 2010). The Corporation’s maximum exposure under these guarantees is presented in Note 25 – Commitments and contingencies.

BT

Partnership arrangements – The Corporation is a party to partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment.

The Corporation’s involvement with these entities results mainly from investments in their equity and/or in subordinated loans and through manufacturing and long-term service contracts. The Corporation concluded that some of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement.

Sale support guarantee – In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited (“Lombard”). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the

Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of \$112 million as at January 31, 2011 (\$110 million as at January 31, 2010). The Corporation's maximum exposure under these guarantees is presented in Note 25 – Commitments and contingencies.

27. CAPITAL MANAGEMENT

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities.

The capital structure provides the Corporation with the ability to meet its liquidity needs as well as support its longer-term strategic investments. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation's adjusted total capitalization consists of adjusted debt and adjusted shareholders' equity (see definitions in table hereafter).

The Corporation's objective with regard to the global metrics is to manage and monitor them such that it can achieve an investment-grade profile, which among other considerations typically requires the respect of the following ratios:

- adjusted EBIT to adjusted net interest ratio greater than 5.0;
- adjusted debt to adjusted EBITDA ratio lower than 2.5; and
- adjusted debt to adjusted total capitalization ratio lower than 55%.

Global metrics – The following global metrics do not represent the calculations required for bank covenants. Details of the methods for calculating global metrics are provided in the Non-GAAP financial measures section of the MD&A. There is no change in the method for calculating the global metrics compared to last fiscal year.

Global metrics	January 31, 2011	January 31, 2010
Interest coverage		
Adjusted EBIT ⁽¹⁾	\$ 1,146	\$ 1,249
Adjusted net interest ⁽²⁾	\$ 215	\$ 334
Adjusted EBIT to adjusted net interest ratio	5.3	3.7
Financial leverage		
Adjusted debt ⁽³⁾	\$ 6,717	\$ 6,084
Adjusted EBITDA ⁽⁴⁾	\$ 1,606	\$ 1,792
Adjusted debt to adjusted EBITDA ratio	4.2	3.4
Capitalization		
Adjusted debt ⁽³⁾	\$ 6,717	\$ 6,084
Adjusted total capitalization ⁽⁵⁾	\$ 11,250	\$ 9,928
Adjusted debt to adjusted total capitalization ratio	60%	61%

⁽¹⁾ Represents earnings before financing income, financing expense and income taxes, plus adjustment for pension deficit and operating leases.

⁽²⁾ Represents financing income and financing expense, plus adjustment for pension deficit and operating leases.

⁽³⁾ Represents long-term debt (including the value of the related derivative hedging financial instruments), the total pension deficit (including the off-balance sheet portion) and the net present value of operating lease obligations.

⁽⁴⁾ Represents earnings before financing income, financing expense, income taxes, depreciation and amortization, plus amortization adjustment for operating leases and adjustment for pension deficit and operating leases.

⁽⁵⁾ Consists of adjusted shareholders' equity (represents all components of shareholders' equity less the amount in AOCI relating to cash flow hedges) and adjusted debt.

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders.

Bank covenants are described in Note 11 – Credit facilities.

28. SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services as well as fractional ownership and flight entitlement programs.	BT is a world leader in the design, manufacture and support of rail equipment and system manufacturing, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies. Management assesses segment performance based on EBIT. Corporate charges are allocated to segments mostly based on each segment's revenues.

Net segmented assets exclude cash and cash equivalents, invested collateral and deferred income taxes, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related long-term contract costs, advances on aerospace program, fractional ownership deferred revenues, accrued benefit liabilities and derivative financial instruments.

The tables containing the detailed segmented data are shown hereafter.

29. RECLASSIFICATIONS

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

SEGMENTED INFORMATION

INDUSTRY SEGMENTS	Bombardier Inc. consolidated		BA		BT	
	2011	2010	2011	2010	2011	2010
For the fiscal years ended January 31						
Revenues						
Manufacturing	\$ 12,903	\$ 14,739	\$ 6,503	\$ 7,475	\$ 6,400	\$ 7,264
Services	2,872	2,767	1,564	1,359	1,308	1,408
Other	1,937	1,860	547	523	1,390	1,337
	17,712	19,366	8,614	9,357	9,098	10,009
Cost of sales	14,668	16,202	7,269	7,959	7,399	8,243
SG&A	1,369	1,453	603	601	766	852
R&D	193	141	46	6	147	135
Other expense (income)	22	(26)	(36)	(53)	58	27
Amortization	410	498	284	371	126	127
	16,662	18,268	8,166	8,884	8,496	9,384
EBIT	\$ 1,050	\$ 1,098	\$ 448	\$ 473	\$ 602	\$ 625
Additions to PP&E and intangible assets	\$ 1,094	\$ 805	\$ 969	\$ 634	\$ 125	\$ 171
As at January 31	2011	2010	2011	2010	2011	2010
Net segmented assets (liabilities)	\$ 3,179	\$ 2,929	\$ 3,353	\$ 2,758	\$ (174)	\$ 171
Liabilities allocated to segments:						
Accounts payable and accrued liabilities ⁽¹⁾	7,845	7,274				
Advances and progress billings in excess of related long-term contract costs	2,421	1,899				
Advances on aerospace programs	1,937	2,092				
Fractional ownership deferred revenues	218	346				
Accrued benefit liabilities	1,132	1,084				
Derivative financial instruments	655	429				
Assets not allocated to segments:						
Cash and cash equivalents	4,195	3,372				
Invested collateral	676	682				
Deferred income taxes	1,172	1,166				
Total consolidated assets	\$ 23,430	\$ 21,273				

⁽¹⁾ Excluding interest and income taxes payable amounting to \$89 million and \$93 million respectively as at January 31, 2011 (\$56 million and \$97 million as at January 31, 2010), which were not allocated to segments.

SEGMENTED INFORMATION

GEOGRAPHIC INFORMATION	Revenues ⁽¹⁾		PP&E, intangible assets and goodwill ⁽²⁾	
	2011	2010	2011	2010
United States	\$ 4,051	\$ 4,370	\$ 645	\$ 523
United Kingdom	1,518	1,552	526	812
Germany	1,464	1,977	1,298	1,421
France	1,334	1,607	55	54
China	1,043	1,343	72	42
Canada	1,025	1,036	2,099	1,562
Sweden	554	651	520	444
India	502	353	54	12
Italy	479	541	142	144
Spain	458	541	15	9
Russia	438	537	-	-
Switzerland	376	491	392	335
Other – Europe	1,826	1,989	531	125
Other – Asia	1,183	945	2	52
Other – Africa	616	402	21	10
Other – Oceania	450	628	12	9
Other – Americas	395	403	45	32
	\$ 17,712	\$ 19,366	\$ 6,429	\$ 5,586

⁽¹⁾ Revenues are attributed to countries based on the location of the customer.

⁽²⁾ PP&E and intangible assets are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

BOMBARDIER TRANSIT CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND JANUARY 31, 2011

As Excerpted from BOMBARDIER INC. Annual Report, Year Ended DECEMBER 31, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and MD&A of Bombardier Inc. and all other information in the annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS as issued by the IASB. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented in the annual report is consistent with that in the consolidated financial statements.

Bombardier Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures and internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Bombardier Inc. has been made known to them; and information required to be disclosed in Bombardier Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Bombardier Inc.'s CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures and internal controls over financial reporting as of the end of the fiscal year ended December 31, 2011. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures and internal controls over financial reporting were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of the fiscal year ended December 31, 2011. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier Inc.'s CEO and CFO have provided a certification related to Bombardier Inc.'s annual disclosure to the Canadian Securities Administrators, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with management, as well as with the internal and external auditors, to review the consolidated financial statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the independence and the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and International Standards on auditing on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Pierre Beaudoin
President and
Chief Executive Officer



Pierre Alary, FCA
Senior Vice President and
Chief Financial Officer

February 29, 2012

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the accompanying consolidated financial statements of Bombardier Inc. which comprise the consolidated statements of financial position as at December 31, 2011, January 31, 2011 and February 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the fiscal years ended December 31, 2011 and January 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and International Standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

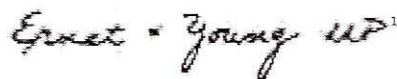
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,

whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bombardier Inc. as at December 31, 2011, January 31, 2011 and February 1, 2010, and its financial performance and its cash flows for the fiscal years ended December 31, 2011 and January 31, 2011 in accordance with International Financial Reporting Standards.



Ernst & Young LLP
Chartered Accountants
Montréal, Canada

February 29, 2012

¹ CA auditor permit no. 15859

CONSOLIDATED STATEMENTS OF INCOME

For the fiscal years ended
(In millions of U.S. dollars, except per share amounts)

	Notes	December 31, 2011 ¹	January 31, 2011
Revenues	5	\$18,347	\$17,892
Cost of sales	5, 15	15,444	14,955
Gross margin		2,903	2,937
SG&A	5	1,439	1,377
R&D	5, 6	271	319
Other expense (income)	5, 7	(9)	36
EBIT		1,202	1,205
Financing expense	8	681	684
Financing income	8	(519)	(476)
EBT		1,040	997
Income taxes	10	203	222
Net income		\$ 837	\$ 775
Attributable to:			
Equity holders of Bombardier Inc.		\$ 837	\$ 762
NCI		-	13
		\$ 837	\$ 775
EPS (in dollars):	11		
Basic		\$ 0.47	\$ 0.43
Diluted		\$ 0.47	\$ 0.42

¹ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results. See note 1 - Basis of preparation for more details.
The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the fiscal years ended
(In millions of U.S. dollars)

	December 31, 2011 ¹	January 31, 2011
Net income	\$ 837	\$ 775
OCI		
Items that may be reclassified to net income		
Net change in cash flow hedges:		
Foreign exchange re-evaluation	16	(6)
Net loss on derivative financial instruments designated as cash flow hedges	(128)	(69)
Reclassification to income or to the related non-financial asset ^{2,3}	(40)	(79)
Income taxes	54	17
	(98)	(137)
Net unrealized gain on AFS financial assets, net of income tax	17	7
CCTD:		
Net investments in foreign operations	(90)	187
Net gain (loss) on related hedging items	50	(50)
	(40)	137
Items that are never reclassified to net income		
Retirement benefits:		
Net actuarial gains (losses)	(1,489)	35
Income taxes	234	(40)
	(1,255)	(5)
Total OCI	(1,376)	2
Total comprehensive income (loss)	\$ (539)	\$ 777
Attributable to:		
Equity holders of Bombardier Inc.	\$ (535)	\$ 763
NCI	(4)	14
	\$ (539)	\$ 777

¹ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

² Includes \$104 million of gains reclassified to the related non-financial asset for the fiscal year ended December 31, 2011 (\$14 million of loss for the fiscal year ended January 31, 2011).

³ \$107 million of net deferred loss is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during the fiscal year ending December 31, 2012.

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the fiscal years ended
(In millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.			
	Share capital		Deficit	
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses
As at February 1, 2010 ¹	\$347	\$1,324	\$1,150	\$(1,973)
Total comprehensive income				
Net income	-	-	762	-
OCI	-	-	-	(5)
	-	-	762	(5)
Options exercised	-	6	-	-
Repurchase of share capital	-	(3)	(13)	-
Dividends				
Common shares	-	-	(173)	-
Preferred shares	-	-	(24)	-
Capital injection	-	-	-	-
Shares distributed - PSU plans	-	47	-	-
Shares purchased - PSU plans	-	(50)	-	-
Share-based expense	-	-	-	-
As at January 31, 2011 ¹	\$347	\$1,324	\$1,702	\$(1,978)
Total comprehensive income				
Net income	-	-	837	-
OCI	-	-	-	(1,255)
	-	-	837	(1,255)
Options exercised	-	9	-	-
Repurchase of share capital	-	(2)	(12)	-
Dividends				
Common shares	-	-	(179)	-
Preferred shares	-	-	(25)	-
Shares distributed - PSU plans	-	50	-	-
Shares purchased - PSU plans	-	(58)	-	-
Share-based expense	-	-	-	-
Purchase of NCI	-	-	(50)	-
As at December 31, 2011	\$347	\$1,323	\$2,273	\$(3,233)

1 Given effect to all changes in accounting policies upon adoption of IFRS (see note 36 - Adoption of IFRS).
The notes are an integral part of these consolidated financial statements.

Attributable to equity holders of Bombardier Inc.

Contributed surplus	Accumulated OCI			Total	NCI	Total Equity
	AFS financial assets	Cash flow hedges	CCTD			
\$ 132	\$ 3	\$ (81)	\$ -	\$ 902	\$ 58	\$ 960
-	-	-	-	762	13	775
-	7	(137)	136	1	1	2
-	7	(137)	136	763	14	777
-	-	-	-	6	-	6
-	-	-	-	(16)	-	(16)
-	-	-	-	(173)	(8)	(181)
-	-	-	-	(24)	-	(24)
-	-	-	-	-	3	3
(48)	-	-	-	(1)	-	(1)
-	-	-	-	(50)	-	(50)
47	-	-	-	47	-	47
\$ 131	\$ 10	\$ (218)	\$ 136	\$ 1,454	\$ 67	\$ 1,521
-	-	-	-	837	-	837
-	17	(98)	(36)	(1,372)	(4)	(1,376)
-	17	(98)	(36)	(535)	(4)	(539)
(1)	-	-	-	8	-	8
-	-	-	-	(14)	-	(14)
-	-	-	-	(179)	-	(179)
-	-	-	-	(25)	-	(25)
(50)	-	-	-	-	-	-
-	-	-	-	(58)	-	(58)
38	-	-	-	38	-	38
-	-	-	-	(50)	(31)	(81)
\$ 118	\$ 27	\$ (316)	\$ 100	\$ 639	\$ 32	\$ 671

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at
(In millions of U.S. dollars)

	Notes	December 31, 2011	January 31, 2011	February 1, 2010
Assets				
Cash and cash equivalents	13	\$ 3,372	\$ 4,195	\$ 3,372
Trade and other receivables	14	1,408	1,377	1,141
Inventories	15	7,398	7,307	7,630
Other financial assets	16	526	705	537
Other assets	17	559	648	519
Current assets		13,263	14,232	13,199
Invested collateral	29	-	676	682
PP&E	18	1,864	1,878	1,674
Aerospace program tooling	19	3,168	2,088	1,385
Goodwill	19	2,253	2,358	2,247
Deferred income taxes	10	1,506	1,294	1,373
Other financial assets	16	1,305	1,104	1,003
Other assets	17	505	462	557
Non-current assets		10,601	9,860	8,921
		\$23,864	\$24,092	\$22,120
Liabilities				
Trade and other payables	21	\$ 3,210	\$ 3,073	\$ 3,045
Provisions	22	1,078	1,198	1,140
Advances and progress billings in excess of long-term contract inventories	15	1,949	2,421	1,899
Advances on aerospace programs		2,788	2,989	3,055
Other financial liabilities	24	732	860	537
Other liabilities	25	2,198	2,163	1,987
Current liabilities		11,955	12,704	11,663
Provisions	22	594	614	675
Advances on aerospace programs		1,266	1,193	1,373
Non-current portion of long-term debt	23	4,748	4,645	4,134
Retirement benefits	20	3,226	1,975	2,181
Other financial liabilities	24	502	532	558
Other liabilities	25	902	908	576
Non-current liabilities		11,238	9,867	9,497
		23,193	22,571	21,160
Equity				
Attributable to equity holders of Bombardier Inc.		639	1,454	902
Attributable to NCI		32	67	58
		671	1,521	960
		\$23,864	\$24,092	\$22,120
Commitments and contingencies	35			

The notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors,


Laurent Beaudoin, C.C., FCA
Director


L. Denis Desautels, O.C., FCA
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended
(In millions of U.S. dollars)

	Notes	December 31, 2011 ¹	January 31, 2011
Operating activities			
Net income		\$ 837	\$ 775
Non-cash items:			
Amortization		333	371
Deferred income taxes	10	66	67
Gains on disposals of PP&E	7	(3)	(11)
Share-based expense	27	38	47
Gain on repurchase of long-term debt	8	-	(22)
Impairment charge on PP&E	7	-	8
Net change in non-cash balances related to operations	28	(1,028)	457
Cash flows from operating activities		243	1,692
Investing activities			
Additions to PP&E and intangible assets		(1,500)	(1,146)
Disposals of PP&E and intangible assets		25	21
Proceeds from disposal of invested collateral		705	-
Other		(28)	(100)
Cash flows from investing activities		(798)	(1,225)
Financing activities			
Proceeds from issuance of long-term debt		122	2,625
Repayments of long-term debt		(15)	(2,125)
Dividends paid ²		(156)	(197)
Purchase of Class B shares held in trust under the PSU plan		(58)	(50)
Repurchase of Class B shares	26	(14)	(16)
Purchase of NCI		(61)	-
Other		(45)	17
Cash flows from financing activities		(227)	254
Effect of exchange rate on cash and cash equivalents		(41)	102
Net increase (decrease) in cash and cash equivalents		(823)	823
Cash and cash equivalents at beginning of year		4,195	3,372
Cash and cash equivalents at end of year		\$ 3,372	\$ 4,195
Supplemental information^{3,4}			
Cash paid for:			
Interest		\$ 238	\$ 224
Income taxes		\$ 115	\$ 132
Cash received for:			
Interest		\$ 40	\$ 169
Income taxes		\$ 20	\$ 8

¹ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

² \$20 million of dividends paid relate to preferred shares for the fiscal year ended December 31, 2011 (\$24 million for the fiscal year ended January 31, 2011).

³ Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.

⁴ Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debt or credit facilities. Interest received comprises interest received related to cash and cash equivalents, invested collateral and aircraft loans and lease receivables, after the effect of hedges, if any.

The notes are an integral part of these consolidated financial statements.

1 BASIS OF PREPARATION

Bombardier Inc. is incorporated under the laws of Canada. The consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries ("the Corporation"). The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The main activities of the Corporation are described in note 5 – Segment disclosure.

On November 30, 2011, the Corporation's Board of Directors approved the change of financial year-end from January 31 to December 31. This change of year-end reporting date was effective in December 2011, and the annual period ended December 31, 2011 comprises 11 months of BA's results. As BT already reports its results using a December 31 year-end, the change had no impact on BT, as the annual period ended December 31, 2011 still comprises 12 months of BT's results. As a result, the Corporation ceased to consolidate the operations of BT with a one-month lag with the remainder of its operations.

The amounts presented in the financial statements for the fiscal years ended December 31, 2011 and January 31, 2011 are not entirely comparable as a result of this change of financial year-end.

STATEMENT OF COMPLIANCE

The Corporation's consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS including IFRS 1, First-time adoption of IFRS, as issued by the IASB. Canadian GAAP has become IFRS effective February 1, 2010 for the Corporation. Note 36 – Adoption of IFRS explains how the transition from Canadian GAAP to IFRS affected the Corporation's reported equity as at February 1, 2010 and January 31, 2011, as well as the financial performance and cash flows for the fiscal year ended January 31, 2011.

The Corporation's consolidated financial statements for the fiscal year ended December 31, 2011 were authorized for issuance by the Board of Directors on February 29, 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

BASIS OF CONSOLIDATION

Subsidiaries – Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date control over the subsidiaries ceases.

The Corporation consolidates SPEs when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the SPE. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of the entity so that the Corporation obtains benefits from its activities, whether it holds shares or not.

The Corporation's principal subsidiaries, whose revenues represent more than 10% of total revenues of their respective segment, are as follows:

Subsidiary	Location
Bombardier Transportation GmbH	Germany
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Learjet Inc.	U.S.
Bombardier Aerospace Corporation	U.S.
Bombardier Transport France S.A.S.	France

Revenues of these subsidiaries combined with those of Bombardier Inc. totalled 72% of consolidated revenues for the fiscal year ended December 31, 2011 (70% for the fiscal year ended January 31, 2011).

Joint ventures – Joint ventures are those entities over which the Corporation exercises joint control, established by contractual agreement and requiring unanimous consent of the parties sharing control for strategic financial and operating decision making. The Corporation recognizes its interest in joint ventures using the proportionate method of consolidation.

Associates – Associates are entities in which the Corporation has the ability to exercise significant influence over the financial and operating policies. Investments in associates are accounted for using the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are expressed in U.S. dollars, the functional currency of Bombardier Inc. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of most foreign subsidiaries is their local currency, mainly the U.S. dollar in BA, and the euro, various other Western European currencies and the U.S. dollar in BT.

Foreign currency transactions - Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income except for exchange differences related to retirement benefits asset and liability, as well as financial liabilities designated as hedges of the Corporation's net investments in foreign operations, which are recognized in OCI. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

Foreign operations - Assets and liabilities of foreign operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars using exchange rates in effect at year-end. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the year. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation.

The exchange rates for the major currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange rates as at			Average exchange rates for fiscal years	
	December 31, 2011	January 31, 2011	February 1, 2010	December 31, 2011	January 31, 2011
Euro	1.2939	1.3715	1.3870	1.3978	1.3202
Canadian dollar	0.9791	0.9978	0.9390	1.0124	0.9750
Pound sterling	1.5490	1.6040	1.6008	1.6068	1.5438

REVENUE RECOGNITION

Long-term contracts - Revenues from long-term contracts related to designing, engineering or manufacturing specifically designed products (including rail vehicle and component overhaul) and service contracts are recognized using the percentage-of-completion method of accounting. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Estimated revenues include revenues from change orders and claims when it is probable that they will result in additional revenues and the amount can be reliably estimated. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in cost of sales in the period in which the negative gross margin is identified.

Aerospace programs - Revenues from the sale of new aircraft are recognized when the aircraft has been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. All costs incurred or to be incurred in connection with the sale, including warranty costs and sales incentives, are charged to cost of sales or as a deduction from revenues at the time revenue is recognized.

Multiple deliverables - Sales of goods and services sometimes involve the provision of multiple components. In these cases, the Corporation determines whether the contract or arrangement contains more than one unit of accounting. When certain criteria are met, such as when the delivered item has value to the customer on a stand-alone basis, the recognition criteria are applied to the separate identifiable components of a single transaction to reflect the substance of the transaction. Conversely, two or more transactions may be considered together for revenue recognition purposes, when the commercial effect cannot be understood without reference to a series of transactions as a whole. Revenue is allocated to the separate components based on their relative fair value.

Sales of aircraft fractional shares are considered together with the related service agreement for the purpose of revenue recognition. Accordingly, revenues from such sales, are recognized over the period during which the related services are rendered to the customer, generally five years. At the time of sale, the proceeds from the sale are recorded in other liabilities, under *Flexjet* fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to other assets, under *Flexjet* fractional ownership deferred costs, and is charged to cost of sales over the same period.

Other - Revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer. Revenues from the sale of pre-owned aircraft and spare parts are recognized when the goods have been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT ASSISTANCE AND REFUNDABLE ADVANCES

Government assistance, including investment tax credits, is recognized when there is a reasonable assurance that the assistance will be received and that the Corporation will comply with all relevant conditions. Government assistance related to the acquisition of inventories, PP&E and intangible assets is recorded as a reduction of the cost of the related asset. Government assistance related to current expenses is recorded as a reduction of the related expenses.

Government refundable advances are recorded as a financial liability if there is reasonable assurance that the amount will be repaid.

INCOME TAXES

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for tax losses carried forward. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred income tax asset and liability are recognized directly in income, OCI or equity based on the classification of the item to which they relate.

EARNINGS PER SHARE

Basic EPS is computed based on net income attributable to equity holders of Bombardier Inc. less dividends on preferred shares, including taxes, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

Diluted EPS are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, invested collateral, trade and other receivables, aircraft loans and lease receivables, investments in securities, investments in financing structures, servicing fees, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, lease subsidies, government refundable advances, vendor non-recurring costs, sale and leaseback obligations and derivative financial instruments with a negative fair value.

Financial instruments are recognized in the statement of financial position when the Corporation becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognized at their fair value plus, in the case of financial instruments not at FVTP&L, transaction costs that are directly attributable to the acquisition or issue of financial instruments. Subsequent to initial recognition, financial instruments are measured according to the category to which they are assigned, which are: a) financial instruments classified as HFT, b) financial instruments designated as FVTP&L, c) AFS financial assets, d) L&R, or e) other than HFT financial liabilities. Their classification is determined by management on initial recognition based on the purpose for their acquisition. Financial instruments are subsequently measured at amortized cost, unless they are classified as AFS or HFT or designated as FVTP&L, in which case they are subsequently measured at fair value.

a) Financial instruments classified as HFT

Cash and cash equivalents – Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions and money market funds, with maturities of three months or less from the date of acquisition.

Derivative financial instruments – Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks, generally through forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. Derivative financial instruments include derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

Derivative financial instruments are classified as HFT, unless they are designated as hedging instruments for which hedge accounting is applied (see below). Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in cost of sales or financing expense or financing income, based on the nature of the exposure.

Embedded derivatives of the Corporation include financing rate commitments, call options on long-term debt and foreign exchange instruments. Upon initial recognition, the fair value of financing rate commitments linked to the sale of products is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the related products. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in cost of sales. Subsequent changes in fair value of embedded derivatives are recorded in cost of sales, other expense (income) or financing expense or financing income, based on the nature of the exposure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments designated as FVTP&L

Financial instruments may be designated on initial recognition as FVTP&L if any of the following criteria is met: (i) the financial instrument contains one or more embedded derivatives that otherwise would have to be accounted for separately; (ii) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or liability or recognizing the gains and losses on them on a different basis; or (iii) the financial asset and financial liability are part of a group of financial assets, financial liabilities, or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The Corporation has designated as FVTP&L the invested collateral, certain aircraft loans and lease receivables, certain investment in financing structures, servicing fees, trade-in commitments and lease subsidies, which were all designated as FVTP&L based on the above criterion (iii).

Subsequent changes in fair value of such financial instruments are recorded in other expense (income), except for the fair value changes arising from a change in interest rates which are recorded in financing expense or financing income.

c) AFS financial assets

Investments in securities are usually classified as AFS. They are accounted for at fair value if reliably measurable, with unrealized gains and losses included in OCI, except for foreign exchange gains and losses monetary investments, such as on fixed-income investments which are recognized in income. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

When a decline in the fair value of an AFS financial asset has been recognized in OCI and there is objective evidence that the asset is impaired, the cumulative loss equal to the difference between the acquisition cost of the investments and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for financial instruments classified as AFS can be reversed, except for investments in equity instruments.

d) L&R

Trade and other receivables, restricted cash, certain aircraft loans and lease receivables, certain investments in financing structures and other financial assets, are classified as L&R. Financial assets classified as L&R are measured at amortized cost using the effective interest rate method less any impairment losses.

Trade receivables as well as aircraft loans and lease receivables classified as L&R are subject to periodic impairment review and are classified as impaired when there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

e) Other than HFT financial liabilities

Trade and other payables, long-term debt, government refundable advances, vendor non-recurring costs, sale and leaseback obligations and certain other financial liabilities are classified as other than HFT liabilities and are measured at amortized cost using the effective interest rate method.

HEDGE ACCOUNTING

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative and non-derivative hedging financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

Fair value hedges - The Corporation generally applies fair value hedge accounting to certain interest-rate derivatives and forward foreign exchange contracts hedging the exposures to changes in the fair value of recognized financial assets and financial liabilities. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.

Cash flow hedges - The Corporation generally applies cash flow hedge accounting to forward foreign exchange contracts and interest-rate derivatives entered into to hedge foreign exchange risks on forecasted transactions and recognized assets and liabilities. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income as a reclassification adjustment when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedge of net investments in foreign operations—The Corporation generally designates certain cross-currency interest-rate swap agreements and long-term debt as hedges of its net investments in foreign operations. The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Gains and losses on derivatives not designated in a hedge relationship and gains and losses on the ineffective portion of effective hedges are recorded in cost of sales or financing expense or financing income for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

When the Corporation is the lessee—Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

When the Corporation is the lessor—Assets subject to finance leases, mainly commercial aircraft, are initially recognized at an amount equal to the net investment in the lease and are included in aircraft lease receivables. Interest income is recognized over the term of the applicable leases based on the effective interest rate method. Assets under operating leases, mostly pre-owned regional and business aircraft, are included in PP&E. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenues.

INVENTORY VALUATION

Long-term contracts—Long-term contract inventories include materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition, as well as estimated contract margins. Advances and progress billings received on accounts of work performed for long-term contracts are deducted from related long-term contract inventories. Advances and progress billings received in excess of related long-term contract inventories are shown as liabilities.

Aerospace program and finished products—Aerospace program work in progress and finished product inventories are valued at the lower of cost or net realizable value. Cost is generally determined using the unit cost method, except for the cost of spare part inventory that is determined using the moving average method. The cost of manufactured inventories comprises all costs that are directly attributable to the manufacturing process, such as materials, direct labour, manufacturing overhead, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. The Corporation estimates the net realizable value using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

Impairment of inventories—Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Retirement benefits—Retirement benefit plans are classified as either defined benefit plans or defined contribution plans.

Contributions to defined contribution plans are recognized in net income when they are due. Defined benefit plans are accounted for as follows:

- The cost of pension and other benefits earned by employees is actuarially determined for each plan using the projected unit credit method, and management's best estimate of long-term rate of return on plan assets, salary escalation, retirement ages, life expectancy and health care costs.
- The defined benefit obligation is determined based on expected future benefit payments discounted using market interest rates at the end of the reporting year.
- Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. These assets are measured at fair value at the end of the reporting period, which is based on published market price information in the case of quoted securities. The value of any plan asset recognized is restricted to the sum of any unrecognized past service costs and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling test").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- A minimum liability is recorded when legal minimum funding requirements for past services exceed economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
- A constructive obligation is recorded as a defined benefit obligation when there is no realistic alternative but to pay employee benefits.
- The actuarial gains and losses (including the foreign exchange impact) arising on the plan assets and defined benefit obligation and the effect of any asset ceiling and minimum liability are recognized directly in OCI in the period in which they occur.
- Past service costs (credits) are recognized on a straight line basis over the average vesting period. Past service costs (credits) relating to benefits already vested are expensed immediately.

The expected return on pension plan assets and accretion on retirement benefit obligations are included in financing income and financing expense respectively. The remaining components of the benefit cost are either capitalized as part of labour costs and included in inventories and in certain PP&E and intangible assets during their construction, or are recognized directly in income. The benefit cost recorded is allocated among functional costs, based on the function of the employee accruing the benefits.

In the case of funded benefit plans, the fair value of plan assets is offset against the benefit obligation. The net amount, determined on a plan-by-plan basis after adjusting for the effects of unrecognized past service costs (credits) and any asset ceiling, is included in retirement benefit liability or retirement benefit asset. In the case of unfunded benefit plans, the benefit obligation, after adjusting for the effects of unrecognized past service costs (credits), is included in retirement benefit liability.

Other long-term employee benefits – The accounting method is similar to the method used for defined benefit plans, except that all actuarial gains and losses and past service costs are recognized immediately in income. Other long-term employee benefits are included in other liabilities.

PROPERTY, PLANT AND EQUIPMENT

PP&E are carried at cost less accumulated amortization and impairment losses. The cost of an item of PP&E includes its purchase price or manufacturing cost, borrowing costs as well as other costs incurred in bringing the asset to its present location and condition. If the cost of certain components of an item of PP&E is significant in relation to the total cost of the item, the total cost is allocated between the various components, which are then separately depreciated over the estimated useful lives of each respective component. The amortization of PP&E is computed on a straight-line basis over the following useful lives:

Buildings	5 to 75 years
Equipment	2 to 15 years
Other	3 to 20 years

The amortization method and useful lives are reviewed on a regular basis and changes are accounted for prospectively. The amortization expense and impairments are recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying asset. Amortization of assets under construction begins when the asset is ready for its intended use.

When a significant part is replaced or a major inspection or overhaul is performed, its cost is recognized in the carrying amount of the PP&E if the recognition criteria are satisfied, and the carrying amount of the replaced part or previous inspection or overhaul is derecognized. All other repair and maintenance costs are charged to income when incurred.

INTANGIBLE ASSETS

Internally generated intangible assets include development costs (mostly aircraft prototype design and testing costs) and internally developed or modified application software. These costs are capitalized when certain criteria for deferral such as proven technical feasibility are met. The costs of internally generated intangible assets include the cost of materials, direct labour, manufacturing overheads and borrowing costs.

Acquired intangible assets include the cost of development activities carried out by vendors for which the Corporation controls the underlying output of the usage of the technology, as well as the cost related to externally acquired licences, patents and trademarks.

Intangible assets are recorded at cost less accumulated amortization and impairment losses and include goodwill, aerospace program tooling, as well as other intangible assets such as licenses, patents and trademarks. Other intangible assets are included in other assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization of aerospace program tooling begins at the date of completion of the first aircraft of the program. Amortization of other intangibles begins when the asset is ready for its intended use. Amortization expense is recognized as follows:

	Method	Estimated useful life
Aerospace program tooling	Unit of production ¹	Expected number of aircraft to be produced ²
Other intangible assets		
Licenses, patent and trademarks	Straight-line	3 to 20 years
Other	Straight-line and unit of production	3 to 5 years and expected number of units to be produced

¹ As of February 1, 2011, the Corporation changed its amortization method prospectively for aerospace program tooling. Before this date, the straight-line method over 10 years was used. Had the Corporation used the straight-line method, the amortization would have been \$130 million instead of \$91 million for the fiscal year ended December 31, 2011.

² As at December 31, 2011, the remaining number of units to fully amortize the aerospace program tooling, except for aerospace program tooling under development, is expected to be produced over the next 9 years.

The amortization methods and estimated useful lives are reviewed on a regular basis and changes are accounted for prospectively. The amortization expense is recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying assets.

The Corporation does not have indefinite-lived intangible assets, other than goodwill. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

BORROWING COSTS

Borrowing costs consist of interest on long-term debt and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset and are deducted from the financing expense to which they relate. All other borrowing costs are expensed in the period they occur.

The Corporation began the capitalization of borrowing costs to qualifying assets on February 19, 2007.

IMPAIRMENT OF PP&E AND INTANGIBLE ASSETS

The Corporation assesses at each reporting date whether there is an indication that a PP&E or intangible asset may be impaired. If any indication exists, the Corporation estimates the recoverable amount of the individual asset, when possible.

When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. Most of the Corporation's non-financial assets are tested for impairment at the CGU level. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

- The fair value less costs to sell reflects the amount the Corporation could obtain from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset, such as the discounted cash flow models.
- The value in use is calculated using estimated net cash flows, with detailed projections generally over a three-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

When the recoverable amount is less than the carrying value of the related asset or CGU, the related assets are written down to their recoverable amount and an impairment loss is recognized in net income.

For PP&E and intangible assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset or CGU to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized in the consolidated statements of income in the same line item where the original impairment was recognized.

Intangible assets and PP&E not yet available for use and goodwill are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired. Impairment losses relating to goodwill are not reversed in future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROVISIONS

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

Product warranties—A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The interest component associated with product warranties, when applicable, is recorded in financing expense. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers. Claims for reimbursement from third parties are recorded if their realization is virtually certain. Product warranties typically range from one to five years, except for aircraft structural and bogie warranties that extend up to 20 years.

Credit and residual value guarantees—Credit and residual value guarantees related to the sale of aircraft are recorded at the amount the Corporation expects to pay under these guarantees when the revenue for the related product is recognized. Subsequent to initial recognition, changes in the value of these guarantees are recorded in other expense (income), except for the changes in value arising from a change in interest rates, which are recorded in financing expense or financing income.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 16 years) under the relevant financing arrangements.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees (ranging from 1 to 15 years) are provided as part of a financing arrangement.

Onerous contracts—If it is more likely than not that the unavoidable costs of meeting the obligations under a contract, other than a long-term contract, exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded in cost of sales, except for the interest component, which is recorded in financing expense. Unavoidable costs include anticipated cost overruns, as well as expected costs associated with late delivery penalties and technological problems. Costs incurred to set up an efficient manufacturing process in the early phase of an aircraft program are not considered unavoidable costs related to a specific contract. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

Termination benefits—Termination benefits are usually paid when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed, through a detailed formal plan without possibility of withdrawal, to terminate the employment of current employees. Termination benefits are included in provisions.

Environmental costs—A provision for environmental costs is recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Legal asset retirement obligations and environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in PP&E and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

SHARE-BASED PAYMENTS

Equity-settled share-based payment plans—Equity-settled share-based payments are measured at fair value at the grant date. For the PSUs and DSUs, the value of the compensation is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs and DSUs that are expected to vest. For share option plans, the value of the compensation is measured using a Black-Scholes option pricing model, modified to incorporate target prices related to the performance share option plan for options granted before June 1, 2009. The effect of any change in the number of options, PSUs and DSUs that are expected to vest is accounted for in the period in which the estimate is revised. Compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Employee share purchase plan—The Corporation's contributions to the employee share purchase plan are measured at cost and accounted for in the same manner as the related employee payroll costs. The value of the compensation is recorded at the time of the employee contribution.

3 FUTURE CHANGES IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

In October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: Recognition and Measurement*. This first part only covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, requirements for measuring a financial liability at fair value have changed, as the portion of the changes in fair value related to the entity's own credit risk must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for the Corporation's fiscal years beginning on January 1, 2015, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

CONSOLIDATION

In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation - Special Purpose Entities*, and parts of IAS 27, *Consolidated and separate financial statements* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

JOINT ARRANGEMENTS

In May 2011, the IASB released IFRS 11, *Joint Arrangements*, which supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in joint ventures. IFRS 11 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. Although the Corporation has not completed its assessment, it expects that a large part of its investments in joint ventures, currently accounted for under the proportionate consolidation method, will be accounted for using the equity method of accounting under IFRS 11. Under the equity method, the Corporation's share of net assets, net income and OCI of joint ventures will be presented as one-line items on the statement of financial position, the statement of income and the statement of comprehensive income, respectively. In addition, the statement of cash flows under the equity method will include the cash flows between the Corporation and its joint ventures, and not the Corporation's proportionate share of the joint ventures' cash flows.

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

FAIR VALUE MEASUREMENT

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has started to assess the impact the adoption of this standard will have on its consolidated financial statements and the Corporation does not expect to be significantly impacted.

FINANCIAL STATEMENT PRESENTATION

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment as the items within OCI that may be reclassified to the statement of income are already grouped together.

3. FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, *Employee Benefits*. Among other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendment to IAS 19 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has started to assess the impact of the adoption of this standard on its consolidated financial statements and this amendment should result in a higher net financing expense for the Corporation.

4 USE OF ESTIMATES AND JUDGMENT

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements. Estimates and judgments are significant when:

- the outcome is highly uncertain at the time the estimates are made; or
- if different estimates or judgments could reasonably have been used that would have had a material impact on the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used, and such differences could be material.

Management's budget and strategic plans cover a three-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. Management prepares a budget and strategic plans on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in the budget and strategic plans are based on the existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and collective agreements. The budget and strategic plans are subject to approval at various levels, including senior management and the Board of Directors. Management uses the budget and strategic plans as well as additional projections or assumptions to derive the expected results for periods thereafter. Management then tracks performance as compared to the budget and strategic plans at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's most critical estimates and judgments. The sensitivity analyses below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

Long-term contracts – BT conducts most of its business under long-term contracts with customers, whereby revenues and margins are recognized using the percentage-of-completion method of accounting. The long-term nature of these contracts requires estimates of total contract costs and revenues at completion. In addition, BA has limited long-term maintenance service contracts with customers.

Estimated revenues at completion are adjusted for change orders, claims, penalties and contract terms that provide for the adjustment of prices. Management judgment is applied to determine if realization of additional revenues from contract change orders and claims is probable and such amounts, if probable, are included in estimated revenues at completion.

Estimated contract costs at completion incorporate forecasts for material and labour costs, foreign exchange rates and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and the potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers.

Recognized revenues and margins are subject to revisions as contracts progress towards completion. Management conducts quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis. In addition, a detailed annual review is performed on a contract-by-contract basis as part of the budget and strategic plan process. The effect of any revision may be significant and is recorded by way of a cumulative catch-up adjustment in the period in which the estimates are revised.

Sensitivity analysis – A 1% increase in the estimated future costs to complete all ongoing production contracts accounted for under the percentage-of-completion method would have decreased BT's gross margin by approximately \$68 million for the fiscal year ended December 31, 2011.

4. USE OF ESTIMATES AND JUDGMENT (CONTINUED)

Aerospace program tooling – Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered under each program. Such estimates are reviewed in detail as part of the budget and strategic plan process. Management exercises judgment to identify independent cash inflows and allocate aerospace program tooling to CGUs by family of aircraft. The recoverable amount of a CGU is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the discount rate and the expected future cash flows over the remaining life of the programs as determined in the budget and strategic plans for each family of aircraft.

Goodwill – The recoverable amount of the BT reportable segment, the group of CGUs to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use. The recoverable amount was calculated as at February 1, 2010 based on fair value less costs to sell using a discounted cash flow model. During the fiscal years ended January 31, 2011 and December 31, 2011, the Corporation concluded that all criteria for using the recoverable amount from a previous period were met and the impairment assessments were performed carrying forward the recoverable amount calculated as at February 1, 2010.

Estimated future cash flows for the first three years were based on the budget and strategic plans. A growth rate of 1% was applied to the last year of the strategic plan to derive estimated cash flows beyond the initial three-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount as at February 1, 2010 was 7.4%.

Valuation of deferred income tax assets – To determine the extent to which deferred income tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic plans by tax jurisdiction on an undiscounted basis and are reviewed on a quarterly basis. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of tax strategies.

Credit and residual value guarantees – The Corporation uses an internal valuation model based on stochastic simulations to estimate the amounts expected to be paid under credit and residual value guarantees. The value is calculated using estimates of fair values of aircraft, current market assumptions for interest rates, published credit ratings when available, default probabilities from rating agencies and the likelihood that the residual value guarantee will be called upon at the expiry of the financing arrangement. The fair value of aircraft is estimated using aircraft residual value curves adjusted to reflect the specific factors of the current aircraft market. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit ratings. The estimates are reviewed on a quarterly basis.

Sensitivity analysis – The Corporation's main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates. The following are presented in isolation from one another.

Assuming a decrease of 1% in the residual value curves as at December 31, 2011, EBIT would have been negatively impacted by \$16 million for the fiscal year ended December 31, 2011.

Assuming an increase of 100 basis points in interest rates as at December 31, 2011, EBT would have been positively impacted by \$5 million for the fiscal year ended December 31, 2011.

Retirement benefits – The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, expected long-term rate of return on plan assets, compensation and pre-retirement benefit increases and inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. Discount rates are reviewed on a quarterly basis. As most other assumptions and estimates are long term in nature, management assesses events and circumstances that could require a change in other assumptions or estimates on a quarterly basis.

Discount rates represent the market rates for high quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit obligations. Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long-term investment returns and target asset allocations. Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases. See note 20 – Retirement benefits for further details regarding assumptions used and sensitivity to changes in critical actuarial assumptions.

5 SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT.

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services as well as <i>Flexjet</i> fractional ownership and flight entitlement programs.	BT is the world leader in the design, manufacture and support of rail equipment and systems, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

The segmented information is prepared using the accounting policies described in note 2 - Summary of significant accounting policies.

Management assesses segment performance based on EBIT. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows for fiscal years ended:

	December 31, 2011 ¹			January 31, 2011		
	BA	BT	Total	BA	BT	Total
Results of operations						
Revenues	\$8,594	\$9,753	\$18,347	\$8,809	\$9,083	\$17,892
Cost of sales	7,355	8,089	15,444	7,495	7,460	14,955
Gross margin	1,239	1,664	2,903	1,314	1,623	2,937
SG&A	621	818	1,439	623	754	1,377
R&D	122	149	271	172	147	319
Other expense (income)	(6)	(3)	(9)	(35)	71	36
EBIT	\$ 502	\$ 700	1,202	\$ 554	\$ 651	1,205
Financing expense			681			684
Financing income			(519)			(476)
EBT			1,040			997
Income taxes			203			222
Net income			\$ 837			\$ 775
Other information						
Net additions to PP&E and intangible assets	\$1,320	\$ 155	\$ 1,475	\$1,008	\$ 117	\$ 1,125
Amortization	\$ 195	\$ 138	\$ 333	\$ 245	\$ 126	\$ 371
Impairment charge on PP&E	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 8

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

5. SEGMENT DISCLOSURE (CONTINUED)

Management measures capital employed using net segmented assets. The reconciliation of total assets and total liabilities to segmented assets and liabilities is as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Assets			
Total assets	\$23,864	\$24,092	\$22,120
Assets not allocated to segments:			
Cash and cash equivalents	3,372	4,195	3,372
Invested collateral	-	676	682
Deferred income taxes	1,506	1,294	1,373
Segmented assets	18,986	17,927	16,693
Liabilities			
Total liabilities	23,193	22,571	21,160
Liabilities not allocated to segments:			
Interest payable ¹	59	89	56
Income taxes payable ²	104	93	97
Long-term debt	4,941	4,662	4,145
Deferred income taxes ²	67	53	65
Segmented liabilities	\$18,022	\$17,674	\$16,797
Net segmented assets			
BA	\$ 1,010	\$ 1,171	\$ 545
BT	\$ (46)	\$ (918)	\$ (649)

¹ Included in trade and other payables in the consolidated statements of financial position.

² Included in other liabilities in the consolidated statements of financial position.

The Corporation's revenues by market segments are as follows for the fiscal years ended:

	December 31, 2011 ³	January 31, 2011
BA		
Manufacturing		
Business aircraft	\$ 4,262	\$ 4,021
Commercial aircraft	1,721	2,157
Other	507	559
Total manufacturing	6,490	6,737
Services ⁴	1,522	1,564
Other ⁵	582	508
	8,594	8,809
BT		
Rolling stock ⁶	6,855	6,385
Services ⁷	1,409	1,308
Systems and signalling ⁸	1,489	1,390
	9,753	9,083
	\$18,347	\$17,892

³ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

⁴ Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training) and Specialized Aircraft Solutions and Military Aviation Training.

⁵ Includes mainly sales of pre-owned aircraft.

⁶ Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.

⁷ Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.

⁸ Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signaling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

5. SEGMENT DISCLOSURE (CONTINUED)

The Corporation's revenues and PP&E and intangible assets are, allocated to countries, as follows:

	Revenues for fiscal years ended ¹			PP&E and intangible assets as at ²	
	December 31, 2011 ³	January 31, 2011	December 31, 2011	January 31, 2011	February 1, 2010
North America					
United States	\$ 4,330	\$ 3,896	\$1,150	\$ 689	\$ 545
Canada	1,289	1,038	2,595	2,087	1,498
Mexico	58	31	39	35	24
	5,677	4,965	3,784	2,811	2,067
Europe					
Germany	1,835	1,302	1,211	1,296	1,402
United Kingdom	1,813	1,583	495	526	838
France	1,289	1,404	54	84	53
Other	3,245	4,069	1,782	1,646	1,063
	8,182	8,358	3,542	3,552	3,356
Asia-Pacific					
China	1,150	921	96	73	68
India	425	465	40	54	50
Other	1,151	1,201	17	13	11
	2,726	2,587	153	140	129
Other					
Russia	218	602	1	-	-
Other	1,544	1,380	32	64	10
	1,762	1,982	33	64	10
	\$18,347	\$17,892	\$7,512	\$6,567	\$5,562

1. Allocated to countries based on the location of the customer.

2. PP&E and intangible assets, excluding goodwill, are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

3. The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

6 RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows for the fiscal years ended:

	December 31, 2011 ⁴	January 31, 2011
R&D expenditures	\$ 1,351	\$1,022
Less: development expenditures capitalized to aerospace program tooling	(1,171)	(829)
	180	193
Add: amortization of aerospace program tooling	91	126
	\$ 271	\$ 319

4. The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

7 OTHER EXPENSE (INCOME)

Other expense (income) was as follows for the fiscal years ended:

	December 31, 2011 ¹	January 31, 2011
Changes in estimates and fair value ²	\$ (10)	\$ (14)
Severance and other involuntary termination costs (including changes in estimates)	7	27
Gains on disposal of PP&E	(3)	(11)
Impairment charge on PP&E	-	8
Other	(3)	26
	\$ (9)	\$ 36

¹ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

² Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding losses (gains) arising from changes in interest rates.

8 FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows for the fiscal years ended:

	December 31, 2011 ³	January 31, 2011
Financing expense		
Accretion on retirement benefit obligations	\$ 418	\$ 417
Amortization of letter of credit facility costs	46	39
Changes in discount rates for provisions	36	1
Accretion on other financial liabilities	20	26
Accretion on provisions	18	25
Other	21	20
	559	528
Interest on long-term debt—after effect of hedges	122	156
	\$ 681 ⁴	\$ 684 ⁴
Financing income		
Expected return on pension plan assets	\$ (418)	\$ (373)
Net gain on certain financial instruments ⁵	(19)	(9)
Gain on repurchase of long-term debt	-	(22)
Other	(13)	(11)
	(450)	(415)
Interest on loans and lease receivables—after effect of hedges	(33)	(33)
Interest on cash and cash equivalents	(33)	(19)
Interest on invested collateral	(3)	(9)
	\$ (519) ⁶	\$ (476) ⁶

³ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

⁴ Of which \$157 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for the fiscal year ended December 31, 2011 (\$194 million for the fiscal year ended January 31, 2011).

⁵ Net gain on certain financial instruments classified as FVTPL, including losses (gains) arising from changes in interest rates.

⁶ Of which \$13 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for the fiscal year ended December 31, 2011 (\$21 million for the fiscal year ended January 31, 2011).

8. FINANCING EXPENSE AND FINANCING INCOME (CONTINUED)

Borrowing costs capitalized to PP&E and intangible assets totalled \$88 million for the fiscal year ended December 31, 2011, using an average capitalization rate of 5.35% (\$63 million and 5.52% for the fiscal year ended January 31, 2011). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

9 EMPLOYEE BENEFIT COSTS

Employee benefit costs¹ were as follows for the fiscal years ended:

	Notes	December 31, 2011 ²	January 31, 2011
Wages, salaries and other employee benefits		\$5,185	\$4,739
Retirement benefits ³	20	250	310
Share-based expense	27	38	47
Severance and other involuntary termination costs	7	7	27
		\$5,480	\$5,123

1 Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

3 Includes defined benefit and defined contribution plans.

10 INCOME TAXES

ANALYSIS OF INCOME TAX EXPENSE

Details of income tax expense were as follows for the fiscal years ended:

	December 31, 2011 ⁴	January 31, 2011
Current income taxes	\$137	\$155
Deferred income taxes	66	67
	\$203	\$222

4 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

10. INCOME TAXES (CONTINUED)

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the fiscal years ended:

	December 31, 2011 ¹	January 31, 2011
EBT	\$ 1,040	\$ 997
Canadian statutory rate	28.4%	30.0%
Income tax expense at statutory rate	295	299
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax losses or temporary differences	(204)	(146)
Non-recognition of tax benefits related to tax losses and temporary differences	98	53
Effect of substantively enacted income tax rate changes and tax status changes in certain entities	11	4
Permanent differences	(3)	7
Write down of deferred income tax assets	-	9
Other	6	(4)
Income tax expense	\$ 203	\$ 222
Effective tax rate	19.5%	22.3%

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The applicable statutory tax rates are 28.4% for the fiscal year ended December 31, 2011 and 30.0% for the fiscal year ended January 31, 2011. The Corporation's applicable tax rate is the Canadian combined rate applicable in the jurisdictions in which the Corporation operates. The decrease is mainly due to the reduction of the Federal income tax rate applicable to the Corporation for the fiscal year ended December 31, 2011 from 17.9% to 16.5%.

Details of deferred income tax expense were as follows for the fiscal years ended:

	December 31, 2011 ²	January 31, 2011
Origination and reversal of temporary differences	\$ 161	\$ 147
Recognition of previously unrecognized tax losses, tax credits and temporary differences	(204)	(146)
Change in unrecognized tax benefits related to tax losses and temporary differences	98	53
Effect of substantively enacted income tax rate changes and tax status	11	4
Write-down of deferred income tax assets	-	9
	\$ 66	\$ 67

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

10. INCOME TAXES (CONTINUED)

DEFERRED INCOME TAXES

The significant components of the Corporation's deferred income tax asset and liability were as follows as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Asset	Liability	Asset	Liability	Asset	Liability
Operating tax losses carried forward	\$ 1,502	\$ -	\$ 1,261	\$ -	\$ 1,226	\$ -
Retirement benefits	894	-	523	-	578	-
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs	847	-	412	-	400	-
Inventories	499	(67)	540	(53)	609	(65)
Provisions	463	-	461	-	370	-
Other financial assets and Other assets	(353)	-	(170)	-	(246)	-
PP&E	(273)	-	(108)	-	(77)	-
Other financial liabilities and Other liabilities	148	-	186	-	96	-
Intangible assets	(110)	-	(6)	-	48	-
Other	30	-	47	-	116	-
	3,647	(67)	3,146	(53)	3,120	(65)
Unrecognized deferred tax assets	(2,141)	-	(1,852)	-	(1,747)	-
	\$ 1,506	\$ (67)	\$ 1,294	\$ (53)	\$ 1,373	\$ (65)

The details of changes to deferred income taxes were as follows for the fiscal years ended:

	December 31, 2011 ¹	January 31, 2011
Balance at beginning of year, net	\$1,241	\$1,308
In net income	(66)	(67)
In OCI		
Retirement benefits	234	(40)
Cash flow hedges	54	17
Other ²	(24)	23
Balance at end of year, net	\$1,439	\$1,241

- 1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Other mainly comprises foreign exchange rate effects.

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to \$7,825 million as at December 31, 2011, of which \$2,208 million relates to retirement benefits that will reverse through OCI (\$6,698 million as at January 31, 2011 of which \$1,518 million relates to retirement benefits that will reverse through OCI) and \$6,400 million as at February 1, 2010 of which \$1,607 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately \$7,792 million as at December 31, 2011 have no expiration date (\$6,670 million as at January 31, 2011 and \$6,383 million as at February 1, 2010) and approximately \$964 million relate to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income (\$1,167 million as at January 31, 2011 and \$1,160 million as at February 1, 2010).

In addition, the Corporation has \$206 million of unused investment tax credits, most of which can be carried forward for 20 years and \$48 million of net capital losses carried forward for which deferred tax assets have not been recognized (\$128 million and \$66 million as at January 31, 2011). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

No deferred tax liabilities have been recognized on undistributed earnings of the Corporation's foreign subsidiaries and joint ventures when they are considered to be indefinitely reinvested. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to corporation and/or withholding taxes. Taxable temporary differences for which a deferred tax liability was not recognized amount to approximately \$225 million.

11 EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for the fiscal years ended:

	December 31, 2011 ¹	January 31, 2011
(Number of shares, stock options, PSUs and DSUs, in thousands)		
Net income attributable to equity holders of Bombardier Inc.	\$ 837	\$ 762
Preferred share dividends, including taxes	(25)	(24)
Net income attributable to common equity holders of Bombardier Inc.	\$ 812	\$ 738
Weighted-average number of common shares outstanding	1,724,889	1,727,200
Net effect of stock options, PSUs and DSUs	18,989	17,934
Weighted-average diluted number of common shares	1,743,878	1,745,134
EPS (in dollars):		
Basic	\$ 0.47	\$ 0.43
Diluted	\$ 0.47	\$ 0.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The effect of the exercise of stock options, PSUs and DSUs was included in the calculation of diluted EPS in the above table, except for 23,359,926 stock options for the fiscal year ended December 31, 2011 (23,063,554 stock options for the fiscal year ended January 31, 2011) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) or predetermined financial performance targets had not been met.

12 FINANCIAL INSTRUMENTS

Net gains (losses) on financial instruments recognized in income were as follows for the fiscal years ended:

	December 31, 2011 ²	January 31, 2011
Financial instruments measured at amortized cost		
L&R - impairment charges	\$(16)	\$ (6)
Other than HFT - gains (losses) from derecognition	\$ -	\$ 22
Financial instruments measured at fair value		
AFS - gains (losses) from derecognition	\$ 5	\$ (2)
FVTP&L - changes in fair value		
Designated as FVTP&L	\$ 35 ³	\$ (2) ³
Required to be classified as HFT		
Derivatives not designated in hedging relationships ⁴	\$(21)	\$(10)
Other ⁵	\$(15)	\$ 35

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

3 Excluding the interest income portion related to the invested collateral of \$3 million for the fiscal year ended December 31, 2011 (\$9 million for the fiscal year ended January 31, 2011).

4 Incurred in connection with economic hedges.

5 Excluding the interest income portion related to cash and cash equivalents of \$33 million for the fiscal year ended December 31, 2011 (\$19 million for the fiscal year ended January 31, 2011).

12. FINANCIAL INSTRUMENTS (CONTINUED)

CARRYING AMOUNTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The classification of financial instruments and their carrying amounts and fair value of financial instruments were as follows as at:

	FVTP&L						
	HFT	Designated	AFS	Amortized cost ¹	DDHR	Total carrying value	Fair value
December 31, 2011							
Financial assets							
Cash and cash equivalents	\$3,372	\$ -	\$ -	\$ -	\$ -	\$3,372	\$3,372
Trade and other receivables	-	-	-	1,408	-	1,408	1,408
Other financial assets	44	698	399	186	504	1,831	1,830
	\$3,416	\$ 698	\$ 399	\$1,594	\$504	\$6,611	\$6,610
Financial liabilities							
Trade and other payables	\$ -	\$ -	n/a	\$3,210	\$ -	\$3,210	\$3,210
Long-term debt	-	-	n/a	4,941	-	4,941	4,649
Other financial liabilities	21	140	n/a	557	323	1,041	1,118
	\$ 21	\$ 140	n/a	\$8,708	\$323	\$9,192	\$8,977
January 31, 2011							
Financial assets							
Cash and cash equivalents	\$4,195	\$ -	\$ -	\$ -	\$ -	\$4,195	\$4,195
Invested collateral	-	676	-	-	-	676	676
Trade and other receivables	-	-	-	1,377	-	1,377	1,377
Other financial assets	65	643	388	221	492	1,809	1,807
	\$4,260	\$1,319	\$ 388	\$1,598	\$492	\$8,057	\$8,055
Financial liabilities							
Trade and other payables	\$ -	\$ -	n/a	\$3,073	\$ -	\$3,073	\$3,073
Long-term debt	-	-	n/a	4,662	-	4,662	4,747
Other financial liabilities	64	161	n/a	537	613	1,375	1,431
	\$ 64	\$ 161	n/a	\$8,272	\$613	\$9,110	\$9,251
February 1, 2010							
Financial assets							
Cash and cash equivalents	\$3,372	\$ -	\$ -	\$ -	\$ -	\$3,372	\$3,372
Invested collateral	-	682	-	-	-	682	682
Trade and other receivables	-	-	-	1,141	-	1,141	1,141
Other financial assets	98	508	328	208	398	1,540	1,539
	\$3,470	\$1,190	\$ 328	\$1,349	\$398	\$6,735	\$6,734
Financial liabilities							
Trade and other payables	\$ -	\$ 9	n/a	\$3,036	\$ -	\$3,045	\$3,045
Long-term debt	-	-	n/a	4,145	-	4,145	4,035
Other financial liabilities	77	196	n/a	447	364	1,084	1,111
	\$ 77	\$ 205	n/a	\$7,628	\$364	\$8,274	\$8,191

¹ Financial assets are classified as L&R and financial liabilities as other than HFT.
n/a: Not applicable

12. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVES AND HEDGING ACTIVITIES

The carrying amounts of all derivative and non-derivative financial instruments in a hedge relationship were as follows as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Cross-currency interest-rate swap	\$ 12	\$ 39	\$ 22	\$ 68	\$ 13	\$ 48
Interest-rate swap	297	-	80	-	140	-
	309	39	102	68	153	48
Derivative financial instruments designated as cash flow hedges¹						
Forward foreign exchange contracts	195	284	390	509	245	278
Derivative financial instruments designated as hedges of net investment						
Cross-currency interest-rate swap	-	-	-	36	-	38
Derivative financial instruments classified as HFT²						
Forward foreign exchange contracts	19	14	9	48	31	53
Interest-rate swap	-	4	-	6	-	7
Cross-currency interest-rate swap	-	-	-	-	21	-
Embedded derivative financial instruments:						
Foreign exchange	4	3	16	8	26	8
Call options on long-term debt	21	-	40	-	20	-
Financing rate commitments	-	-	-	2	-	9
	44	21	65	64	98	77
Total derivative financial instruments	\$548	\$ 344	\$557	\$677	\$496	\$441
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	\$ -	\$1,029	\$ -	\$715	\$ -	\$399

1 The maximum length of time of the derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 22 months as of December 31, 2011.

2 Held as economic hedges, except for embedded derivative financial instruments.

The net gains on the hedging instruments designated in fair value hedge relationships and the net losses on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to \$311 million and \$304 million respectively for the fiscal year ended December 31, 2011 (\$123 million and \$119 million respectively for the fiscal year ended January 31, 2011).

The methods and assumptions used to measure the fair value of financial instruments are described in note 32 - Fair value of financial instruments.

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Cash	\$1,091	\$1,529	\$ 649
Cash equivalents			
Term deposits	750	832	714
Money market funds	1,531	1,834	2,009
Cash and cash equivalents	\$3,372	\$4,195	\$3,372

See note 29 – Credit facilities for details on covenants related to cash and cash equivalents.

14 TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Trade receivables ^{1,2}	\$1,341	\$1,293	\$1,103
Other	109	136	90
	1,450	1,429	1,193
Allowance for doubtful accounts	(42)	(52)	(52)
	\$1,408	\$1,377	\$1,141

1 Of which \$415 million and \$349 million are denominated in euro and other foreign currencies, respectively, as at December 31, 2011 (\$472 million and \$393 million, respectively, as at January 31, 2011 and \$312 million and \$443 million, respectively, as at February 1, 2010).

2 Of which \$172 million represents customer retentions relating to long-term contracts as at December 31, 2011 based on normal terms and conditions.

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows as at:

	December 31, 2011	January 31, 2011
Balance at beginning of year	\$(52)	\$(52)
Provision for doubtful accounts	(11)	(4)
Amounts written off	5	4
Effect of foreign currency exchange rate changes	16	-
Balance at end of year	\$(42)	\$(52)

Receivables that are past due but not impaired – The trade receivables that are past due but not impaired for BA amounted to \$94 million, of which \$25 million were more than 90 days past due as at December 31, 2011 (\$63 million as at January 31, 2011, of which \$14 million were more than 90 days past due and \$53 million as at February 1, 2010, of which \$14 million were more than 90 days past due).

In addition, \$272 million of trade receivables related to BT long-term contracts are past due but not impaired as at December 31, 2011, of which \$137 million were more than 90 days past due (\$330 million as at January 31, 2011 of which \$196 million were more than 90 days past due and \$350 million as at February 1, 2010, of which \$160 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

Receivables that are impaired—The Corporation has determined that a gross amount of \$38 million of trade receivables are individually impaired as at December 31, 2011 (\$43 million as at January 31, 2011 and \$38 million as at February 1, 2010). The factors that the Corporation considers to classify trade receivables as impaired are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears for over 90 days.

Further information on financial risk is provided in note 31—Financial risk management.

FACTORING

In the normal course of its business, BT has factoring facilities in Europe to which it can sell, without recourse, qualifying trade receivables. Trade receivables of €580 million (\$751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [\$340 million] as at January 31, 2011 and €140 million [\$194 million] as at February 1, 2010). Trade receivables of €581 million (\$812 million) were sold to these facilities during the fiscal year ended December 31, 2011 (€442 million [\$584 million] during the fiscal year ended January 31, 2011).

15 INVENTORIES

Inventories were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aerospace programs	\$ 3,845	\$ 4,146	\$ 4,748
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	6,510	5,452	5,190
Less: advances and progress billings	(4,773)	(3,975)	(4,070)
	1,737	1,477	1,120
Service contracts			
Cost incurred and recorded margins	380	512	616
Less: advances and progress billings	(45)	(73)	(85)
	335	439	531
Finished products ¹	1,481	1,245	1,231
	\$ 7,398	\$ 7,307	\$ 7,630

1. Finished products include 5 new aircraft not associated with a firm aircraft order and 95 pre-owned aircraft, totalling \$691 million as at December 31, 2011 (8 new aircraft and 68 pre-owned aircraft, totalling \$532 million as at January 31, 2011 and 5 new aircraft and 55 pre-owned aircraft, totalling \$524 million as at February 1, 2010).

Finished products as at December 31, 2011 include \$162 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities, which are accounted for as sale and leaseback obligations (\$209 million as at January 31, 2011 and \$167 million as at February 1, 2010).

The amount of inventories recognized as cost of sales totalled \$14,381 million for the fiscal year ended December 31, 2011 (\$13,606 million for the fiscal year ended January 31, 2011). These amounts include \$66 million of write-down for the fiscal year ended December 31, 2011 (\$48 million for the fiscal year ended January 31, 2011).

Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in BT, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Advances and progress billings received on long-term contracts in progress were \$6,767 million as at December 31, 2011 (\$6,469 million as at January 31, 2011 and \$6,054 million as at February 1, 2010). Revenues include revenues from BT long-term contracts, which amounted to \$7,537 million for the fiscal year ended December 31, 2011 (\$7,002 million for the fiscal year ended January 31, 2011).

16 OTHER FINANCIAL ASSETS

Other financial assets were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Derivative financial instruments ¹	\$ 548	\$ 557	\$ 496
Aircraft loans and lease receivables ^{2,3}	472	432	312
Investments in securities ^{2,4}	423	415	328
Investments in financing structures ²	243	242	233
Servicing fees	57	49	48
Restricted cash	51	58	40
Other	37	56	83
	\$1,831	\$1,809	\$1,540
Of which current	\$ 526	\$ 705	\$ 537
Of which non-current	1,305	1,104	1,003
	\$1,831	\$1,809	\$1,540

1 See note 12 - Financial instruments.

2 Carried at fair value, except for \$32 million of aircraft loans and lease receivables, \$24 million of investments in securities and \$42 million of investments in financing structure carried at amortized cost as at December 31, 2011 (\$25 million, \$27 million and \$55 million, respectively, as at January 31, 2011 and \$32 million, nil and \$53 million, respectively, as at February 1, 2010).

3 Financing with three airlines represents 47% of the total aircraft loans and lease receivables as at December 31, 2011 (three airlines represented 46% as at January 31, 2011 and 55% as at February 1, 2010). Aircraft loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors.

4 Includes \$167 million of securities ceded as collateral for guarantees issued in connection with the sale of aircraft as at December 31, 2011 (\$152 million as at January 31, 2011 and \$148 million as at February 1, 2010).

17 OTHER ASSETS

Other assets were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Prepaid expenses	\$ 298	\$ 327	\$ 226
Intangible assets other than aerospace program tooling and goodwill ⁵	227	243	256
Flexjet fractional ownership deferred costs	186	156	227
Sales tax and other taxes	185	183	137
Deferred financing charges	85	65	99
Investments in associates ⁶	37	57	40
Retirement benefits ⁷	13	29	44
Other	33	50	47
	\$1,064	\$1,110	\$1,076
Of which current	\$ 559	\$ 648	\$ 519
Of which non-current	505	462	557
	\$1,064	\$1,110	\$1,076

5 See note 19 - Intangible assets.

6 The Corporation has pledged shares in investees subject to significant influence, with a carrying value of \$30 million as at December 31, 2011 (\$33 million as at January 31, 2011 and \$26 million as at February 1, 2010).

7 See note 20 - Retirement benefits.

18 PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows as at:

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at January 31, 2011	\$102	\$ 2,046	\$1,181	\$ 175	\$ 564	\$ 4,068
Additions	-	45	61	128	72	306
Disposals	(2)	(44)	(138)	-	(75)	(259)
Transfers	-	22	111	(138)	5	-
Effect of foreign currency exchange rate changes	(5)	(67)	(26)	(2)	(5)	(105)
Balance as at December 31, 2011	\$ 95	\$ 2,002	\$1,189	\$ 163	\$ 561	\$ 4,010
Depreciation and impairment						
Balance as at January 31, 2011	\$ -	\$(1,121)	\$(788)	\$ -	\$(281)	\$(2,190)
Amortization	-	(60)	(102)	-	(16)	(178)
Disposals	-	42	117	-	12	171
Effect of foreign currency exchange rate changes	-	42	9	-	-	51
Balance as at December 31, 2011	\$ -	\$(1,097)	\$(764)	\$ -	\$(285)	\$(2,146)
Net carrying value	\$ 95	\$ 905	\$ 425	\$ 163	\$ 276	\$ 1,864
Cost						
Balance as at February 1, 2010	\$ 99	\$ 1,901	\$1,103	\$ 157	\$ 442	\$ 3,702
Additions	-	48	86	117	116	367
Disposals	-	(5)	(49)	-	(4)	(58)
Transfers	-	86	14	(104)	4	-
Effect of foreign currency exchange rate changes	3	16	27	5	6	57
Balance as at January 31, 2011	\$102	\$ 2,046	\$1,181	\$ 175	\$ 564	\$ 4,068
Depreciation and impairment						
Balance as at February 1, 2010	\$ -	\$(1,058)	\$(705)	\$ -	\$(265)	\$(2,028)
Amortization	-	(53)	(102)	-	(16)	(171)
Impairment	-	(8)	-	-	-	(8)
Disposals	-	5	41	-	3	49
Effect of foreign currency exchange rate changes	-	(7)	(22)	-	(3)	(32)
Balance as at January 31, 2011	\$ -	\$(1,121)	\$(788)	\$ -	\$(281)	\$(2,190)
Net carrying value	\$102	\$ 925	\$ 393	\$ 175	\$ 283	\$ 1,878

Included in the above table are assets under finance lease, where the Corporation is the lessee, presented in Other, with cost and accumulated depreciation amounting to \$214 million and \$88 million, respectively, as at December 31, 2011 (\$185 million and \$75 million as at January 31, 2011 and \$147 million and \$68 million as at February 1, 2010).

Also included in the above table are aircraft under operating leases where the Corporation is the lessor, presented in Other, with a cost and accumulated depreciation amounting to \$88 million and \$10 million, respectively, as at December 31, 2011 (\$144 million and \$22 million as at January 31, 2011 and \$60 million and \$15 million as at February 1, 2010). Rental income from operating leases

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

and depreciation of assets under operating leases amounted to \$14 million and \$6 million respectively for the fiscal year ended December 31, 2011 (\$11 million and \$10 million, respectively, for the fiscal year ended January 31, 2011).

19 INTANGIBLE ASSETS

Intangible assets were as follows as at:

	Aerospace program tooling			Goodwill	Other ^{1,2}	Total
	Acquired	Internally generated	Total ³			
Cost						
Balance as at January 31, 2011	\$ 949	\$ 4,076	\$ 5,025	\$ 2,358	\$ 864	\$ 8,247
Additions	142	1,029	1,171	-	49	1,220
Disposals	-	-	-	-	(182)	(182)
Effect of foreign currency exchange rate changes	-	-	-	(105)	(27)	(132)
Balance as at December 31, 2011	\$ 1,091	\$ 5,105	\$ 6,196	\$ 2,253	\$ 704	\$ 9,153
Accumulated amortization and impairment						
Balance as at January 31, 2011	\$ (578)	\$(2,359)	\$(2,937)	\$ -	\$(621)	\$(3,558)
Amortization	(10)	(81)	(91)	-	(59)	(150)
Disposals	-	-	-	-	182	182
Effect of foreign currency exchange rate changes	-	-	-	-	21	21
Balance as at December 31, 2011	\$ (588)	\$(2,440)	\$(3,028)	\$ -	\$(477)	\$(3,505)
Net carrying value	\$ 503	\$ 2,665	\$ 3,168	\$ 2,253	\$ 227	\$ 5,648
Cost						
Balance as at February 1, 2010	\$ 814	\$ 3,382	\$ 4,196	\$ 2,247	\$ 820	\$ 7,263
Additions	135	694	829	-	47	876
Disposals	-	-	-	-	(3)	(3)
Effect of foreign currency exchange rate changes	-	-	-	111	-	111
Balance as at January 31, 2011	\$ 949	\$ 4,076	\$ 5,025	\$ 2,358	\$ 864	\$ 8,247
Accumulated amortization and impairment						
Balance as at February 1, 2010	\$ (551)	\$(2,260)	\$(2,811)	\$ -	\$(564)	\$(3,375)
Amortization	(27)	(99)	(126)	-	(58)	(184)
Disposals	-	-	-	-	2	2
Effect of foreign currency exchange rate changes	-	-	-	-	(1)	(1)
Balance as at January 31, 2011	\$ (578)	\$(2,359)	\$(2,937)	\$ -	\$(621)	\$(3,558)
Net carrying value	\$ 371	\$ 1,717	\$ 2,088	\$ 2,358	\$ 243	\$ 4,689

1 Presented in note 17 - Other assets.

2 Includes internally generated intangible assets with a cost and accumulated amortization of \$294 million and \$176 million, respectively, as at December 31, 2011 (\$433 million and \$328 million as at January 31, 2011 and \$273 million and \$228 million as at February 1, 2010).

3 Includes intangible assets under development with a cost of \$2,489 million as at December 31, 2011 (\$1,347 million as at January 31, 2011 and \$949 million as at February 1, 2010).

19. INTANGIBLE ASSETS (CONTINUED)

AEROSPACE PROGRAM TOOLING

The net carrying value of aerospace program tooling comprises \$1,851 million for commercial aircraft and \$1,317 million for business aircraft as at December 31, 2011 (\$1,249 million and \$839 million, respectively, as at January 31, 2011 and \$789 million and \$596 million, respectively, as at February 1, 2010).

GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment as a group of CGUs. The Corporation carried out an impairment test as of February 1, 2010. During the fourth quarters of the fiscal years ended December 31, 2011 and January 31, 2011 the Corporation completed an impairment assessment carrying forward the recoverable amount calculated as at February 1, 2010. The Corporation did not identify any impairment.

20 RETIREMENT BENEFITS**DEFINED BENEFIT PLANS**

The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering the majority of its employees. Defined benefits are generally based on salary and years of service. The Corporation also provides other defined benefit plans, consisting essentially of post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the components of the retirement benefits costs and financing expense and financing income for the fiscal years ended:

	December 31, 2011 ¹		January 31, 2011	
	Pension benefits	Other benefits	Pension benefits	Other benefits
EBIT or capitalized costs²				
Current service cost	\$ 201	\$ 9	\$ 201	\$ 9
Past service costs (credit)	3	(1)	3	(1)
Curtailment	(10)	-	4	-
Settlement	(3)	(1)	(1)	-
Other	-	-	1	-
	191	7	208	8
Financing expense and financing income				
Accretion on retirement benefit obligations	402	16	399	18
Expected return on pension plan assets	(418)	-	(373)	-
	(16)	16	26	18
Total retirement benefits costs	\$ 175	\$23	\$ 234	\$26

¹ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

² Costs capitalized as part of the cost of inventories and other self-constructed assets

Net actuarial losses of \$1,489 million recognized directly in OCI in the fiscal year ended December 31, 2011 include \$1,728 million of actuarial losses, a gain of \$178 million resulting from the reversal of asset ceiling and additional liability arising from the minimum funding requirement and a gain of \$61 million related to foreign exchange re-evaluation of plans not denominated in the functional currency of the operation to which they relate (net actuarial gains of \$35 million in the fiscal year ended January 31, 2011, include \$161 million of actuarial gains, a loss of \$70 million resulting from the asset ceiling and additional liability arising from the minimum funding requirement and a loss of \$56 million related to foreign exchange re-evaluation).

20. RETIREMENT BENEFITS (CONTINUED)

The following tables present the changes in the defined benefit obligation and fair value of pension plan assets for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Change in benefit obligation				
Obligation at beginning of year	\$ 7,762	\$ 327	\$ 6,919	\$ 298
Accretion	402	16	399	18
Current service cost	201	9	201	9
Plan participants' contributions	38	-	35	-
Past service cost	3	-	3	-
Actuarial losses (gains)	1,372	35	165	(3)
Benefits paid	(268)	(11)	(260)	(13)
Curtailment	(10)	-	4	-
Settlement	(4)	(2)	(8)	-
Other	-	-	2	-
Effect of exchange rate changes	(254)	(9)	302	18
Obligation at end of year	\$ 9,242	\$ 365	\$ 7,762	\$ 327
Change in plan assets				
Fair value at beginning of year	\$ 6,322	\$ -	\$ 5,181	\$ -
Employer contributions	373	12	419	13
Plan participants' contributions	38	-	35	-
Expected return	418	-	373	-
Actuarial (losses) gains	(321)	-	323	-
Benefits paid	(268)	(11)	(260)	(13)
Settlement	(1)	(1)	(7)	-
Other	-	-	1	-
Effect of exchange rate changes	(166)	-	257	-
Fair value at end of year	\$ 6,395	\$ -	\$ 6,322	\$ -

20. RETIREMENT BENEFITS (CONTINUED)

The following table presents the reconciliation of the funded status to the amount recognized in the consolidated statements of financial position as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded status - deficit						
Present value of obligations of funded plans	\$ 8,673	\$ -	\$ 7,171	\$ -	\$ 6,339	\$ -
Fair value of plan assets	(6,395)	-	(6,322)	-	(5,181)	-
	2,278	-	849	-	1,158	-
Present value of obligations of unfunded plans	569	365	591	327	580	298
Unrecognized past service credits	-	1	-	2	-	3
Impact of asset ceiling test	-	-	97	-	8	-
Liability arising from minimum funding requirement ¹	-	-	80	-	90	-
Net amount recognized	\$ 2,847	\$366	\$ 1,617	\$329	\$ 1,836	\$301
Amounts included in:						
Retirement benefit						
liability	\$ 2,860	\$366	\$ 1,646	\$329	\$ 1,880	\$301
asset ²	(13)	-	(29)	-	(44)	-
Net liability	\$ 2,847	\$366	\$ 1,617	\$329	\$ 1,836	\$301

¹ Comprises the effect of exchange rate changes.

² Presented in note 17-Other assets.

The following table presents the allocation by major countries as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Benefit obligation	Plan assets	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Canada	\$5,019	\$3,125	\$3,929	\$3,078	\$ 3,324	\$2,462
U.K.	2,855	2,496	2,605	2,483	2,466	2,077
U.S.	864	521	677	497	602	423
Germany	389	-	428	-	406	-
Switzerland	301	222	277	228	237	186
Other	179	31	173	36	182	33
	\$9,607	\$6,395	\$8,089	\$6,322	\$ 7,217	\$5,181

20. RETIREMENT BENEFITS (CONTINUED)

Plan assets are held in trust and their weighted-average allocations were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Cash and cash equivalents	3%	3%	5%
Publicly traded investments:			
Equity securities	46%	54%	55%
Fixed-income securities	41%	37%	35%
Global infrastructure and real estate assets	10%	6%	5%

Actual return on plan assets was \$97 million for the fiscal year ended December 31, 2011 (\$696 million for the fiscal year ended January 31, 2011). Plan assets did not include any of the Corporation's shares, nor any property occupied by the Corporation or other assets used by the Corporation as at December 31, 2011, January 31, 2011 and February 1, 2010.

Contributions to funded defined benefit pension plans and benefit payments related to unfunded defined benefit pension plans are estimated at \$394 million for calendar year 2012, compared to actual contributions of \$373 million for the fiscal year ended December 31, 2011. Benefit payments to other retirement benefit plans are estimated at \$14 million for calendar year 2012, compared to actual benefits paid of \$12 million for the fiscal year ended December 31, 2011.

The significant actuarial assumptions reflect the economic situation of each country. The weighted-average assumptions used to determine the benefit cost and obligation were as follows as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
(in percentage)	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	5.40%	5.40%	5.64%	5.74%	n/a	n/a
Expected long-term rate of return on plan assets	6.89%	n/a	7.00%	n/a	n/a	n/a
Rate of compensation increase	3.72%	3.50%	3.73%	3.50%	n/a	n/a
Inflation rate	2.61%	n/a	2.71%	n/a	n/a	n/a
Ultimate health care cost trend rate	n/a	5.00%	n/a	5.00%	n/a	n/a
Benefit obligation						
Discount rate	4.44%	4.25%	5.40%	5.40%	5.64%	5.74%
Rate of compensation increase	3.71%	3.50%	3.72%	3.50%	3.73%	3.50%
Inflation rate	2.24%	n/a	2.61%	n/a	2.71%	n/a
Ultimate health care cost trend rate	n/a	5.00%	n/a	5.00%	n/a	5.00%

n/a: Not applicable

During the fourth quarter of the fiscal year ended December 31, 2011, the Corporation changed certain estimates for future discretionary increase in benefits of certain of its defined benefit pension plans. This change resulted in a pre-tax increase of \$235 million in the pension benefits liability which was accounted for in OCI in accordance with the Corporation's accounting policy for actuarial gains and losses.

20. RETIREMENT BENEFITS (CONTINUED)

A 0.25 percentage point increase in one of the following actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

Increase (decrease)	Retirement benefit cost for the year ended December 31, 2011	Net retirement benefit liability as at December 31, 2011
Discount rate	\$(12)	\$(396)
Expected return on plan asset	\$(15)	n/a
Rate of compensation increase	\$ 9	\$ 89
Inflation rate	\$ 8	\$ 118

n/a: Not applicable

As at December 31, 2011, the health care cost trend rate for retirement benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 7.5% and to decrease progressively to 5% by calendar year 2018 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects as at December 31, 2011 and for the fiscal year ended December 31, 2011:

	One percentage point increase	One percentage point decrease
Effect on the net retirement benefit liability	\$33	\$(29)
Effect on the retirement benefit cost	\$ 3	\$ (2)

Changes in the cumulative amount of net actuarial losses recognized in OCI, and presented as a separate component of retained earnings (deficit), were as follows for the fiscal years ended:

Gains (losses)	
February 1, 2010 - Transition adjustment, net of taxes	\$(1,973) ¹
Net actuarial gains	35
Incomes taxes	(40)
January 31, 2011	(1,978)
Net actuarial losses	(1,489)
Incomes taxes	234
December 31, 2011	\$(3,233)

¹ Net of income taxes of \$177 million.

As permitted under IFRS 1, the Corporation has not determined the amount of actuarial gains and losses that would have been recognized in OCI prior to the adoption of IFRS on February 1, 2010.

DEFINED CONTRIBUTION PENSION PLANS

The Corporation also offers Canadian and Foreign defined contribution plans covering a portion of its employees. Defined contribution plan formulas are based on a percentage of salary.

Contributions to defined contribution pension plans, which correspond to the benefit cost recognized, amounted to \$52 million for the fiscal year ended December 31, 2011 (\$50 million for the fiscal year ended January 31, 2011). Contributions to defined contribution pension plans are estimated at \$51 million for calendar year 2012.

21 TRADE AND OTHER PAYABLES

Trade and other payables were as follows as at:

	December 31 2011	January 31 2011	February 1 2010
Trade payables	\$2,144	\$2,045	\$2,139
Accrued liabilities	582	597	543
Interest	59	89	56
Other	425	342	307
	\$3,210	\$3,073	\$3,045

22 PROVISIONS

Changes in provisions were as follows for the fiscal years ended:

	Product warranties	Credit and residual value guarantees	Restructuring	Other ¹	Total
Balance as at January 31, 2011	\$ 1,120	\$ 493	\$ 70	\$ 129	\$ 1,812
Additions	485	-	32	23	540
Utilization	(437)	(60)	(37)	(16)	(550)
Reversals	(59)	(27)	(26)	(29)	(141)
Accretion expense	1	16	-	1	18
Effect of changes in discount rates	1	34	-	1	36
Effect of foreign currency exchange rate changes	(38)	-	(1)	(4)	(43)
Balance as at December 31, 2011	\$ 1,073	\$ 456	\$ 38	\$ 105	\$ 1,672
Of which current	\$ 929	\$ 52	\$ 33	\$ 64	\$ 1,078
Of which non-current	144	404	5	41	594
	\$ 1,073	\$ 456	\$ 38	\$ 105	\$ 1,672
Balance as at February 1, 2010	\$ 1,009	\$ 536	\$ 82	\$ 188	\$ 1,815
Additions	460	12	38	59	569
Utilization	(299)	(42)	(35)	(80)	(456)
Reversals	(83)	(31)	(16)	(38)	(168)
Accretion expense	4	20	-	1	25
Effect of changes in discount rates	3	(2)	-	-	1
Effect of foreign currency exchange rate changes	26	-	1	(1)	26
Balance as at January 31, 2011	\$ 1,120	\$ 493	\$ 70	\$ 129	\$ 1,812
Of which current	\$ 985	\$ 85	\$ 64	\$ 64	\$ 1,198
Of which non-current	135	408	6	65	614
	\$ 1,120	\$ 493	\$ 70	\$ 129	\$ 1,812

¹ Includes litigations and claims, as well as environmental liabilities.

23 LONG-TERM DEBT

Long-term debt was as follows as at:

						December 31 2011	January 31 2011	February 1 2010
	Amount in currency of origin C2011/ 2011/2010	Currency	Contractual C2011/ 2011/2010 ^{1,2}	Interest rate After effect of fair value hedges	Maturity	Amount	Amount	Amount
Senior notes	nil/nil/679	EUR	nil/nil/3.90% ³	n/a	n/a	\$ -	\$ -	\$ 933
	nil/nil/385	USD	8.00%	3-month Libor + 2.91	n/a	-	-	429
	785	EUR	7.25%	3-month Libor + 4.83	Nov. 2016	1,146	1,152	1,128
	650/ 650/nil	USD	7.50%	3-month Libor + 4.19	Mar. 2018	714	660	-
	850/ 850/nil	USD	7.75%	3-month Libor + 4.14	Mar. 2020	962	864	-
	780/ 780/nil	EUR	6.13%	3-month Euribor + 2.87	May 2021	1,082	1,042	-
Notes	151/ 151/550	USD	6.75%	3-month Libor + 2.26	May 2012	153	158	585
	162/162/ 500	USD	6.30%	3-month Libor + 1.59	May 2014	176	178	546
	250	USD	7.45%	n/a	May 2034	247	247	247
Debentures	150	CAD	7.35%	n/a	Dec. 2026	146	149	139
Other ⁴	315/ 212/138 ⁵	Various	4.39%/ 5.54%/7.42%	n/a	2012-2026	315	212	138
						\$ 4,941	\$ 4,662	\$ 4,145
Of which current ⁶						\$ 193	\$ 17	\$ 11
Of which non-current						4,748	4,645	4,134
						\$ 4,941	\$ 4,662	\$ 4,145

¹ As at December 31, 2011, the contractual interest rates are fixed, except for a portion of our other long-term debts which are variable.

² For variable-rate debt, the interest rate represents the average rate for the fiscal year. Interest on long-term debt as at December 31, 2011 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.

³ Floating rate Senior notes.

⁴ Includes obligations under finance leases.

⁵ Amounts are expressed in U.S. dollars.

⁶ See note 24 - Other financial liabilities.

n/a: Not applicable

C2011 refers to December 31, 2011. 2011 refers to January 31, 2011, and 2010 refers to February 1, 2010.

All Senior notes and notes rank pari-passu and are unsecured.

23. LONG-TERM DEBT (CONTINUED)

The carrying value of long-term debt includes principal repayments, transaction costs, unamortized discounts and the basis adjustments related to derivatives designated in fair value hedge relationships. The following table presents the contractual principal repayments of the long-term debt:

	December 31, 2011	January 31, 2011	February 1, 2010
Within one year	\$ 189	\$ 17	\$ 11
Between one and five years	1,360	404	2,414
More than five years	3,001	4,151	1,570
	\$4,550	\$4,572	\$3,995

24 OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Derivative financial instruments ¹	\$ 344	\$ 677	\$ 441
Government refundable advances	317	284	238
Current portion of long-term debt ²	193	17	11
Sale and leaseback obligations	163	216	179
Lease subsidies ³	140	161	196
Vendor non-recurring costs	13	15	9
Other	64	22	21
	\$1,234	\$1,392	\$1,095
Of which current	\$ 732	\$ 860	\$ 537
Of which non-current	502	532	558
	\$1,234	\$1,392	\$1,095

¹ See note 12 - Financial instruments.

² See note 23 - Long-term debt.

³ The amount contractually required to be paid is \$158 million as at December 31, 2011 (\$215 million as at January 31, 2011, and \$228 million as at February 1, 2010).

SALE AND LEASEBACK OBLIGATIONS

The Corporation has set up sale and leaseback facilities, which may be used to sell pre-owned business aircraft. For accounting purposes, amounts outstanding under these arrangements are considered financial obligations secured by the pre-owned business aircraft. The arrangements are generally for a term no longer than 24 months. The Corporation may settle the obligation at any time during the arrangement.

25 OTHER LIABILITIES

Other liabilities were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Accruals for long-term contract costs	\$ 816	\$ 796	\$ 675
Employee benefits ¹	672	714	544
Supplier contributions to aerospace programs	348	314	150
Income and other taxes payable	216	166	203
Flexjet fractional ownership deferred revenues	212	196	306
Deferred income taxes ²	67	53	65
Other	769	832	620
	\$3,100	\$3,071	\$2,563
Of which current	\$2,198	\$2,163	\$1,987
Of which non-current	902	908	576
	\$3,100	\$3,071	\$2,563

¹ Comprised of all employee benefits excluding those related to retirement benefits, which are reported under retirement benefits (see note 20 - Retirement benefits).
² See note 10 - Income taxes.

26 SHARE CAPITAL

PREFERRED SHARES

The preferred shares authorized and issued and fully paid were as follows as at December 31, 2011, January 31, 2011 and February 1, 2010:

	Authorized for the specific series	Issued and fully paid
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

Series 2 Cumulative Redeemable Preferred Shares

Redemption: Redeemable, at the Corporation's option, at \$25.50 Cdn per share.

Conversion: Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.

Dividend: Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than \$24.90 Cdn per share or more than \$25.10 Cdn per share.

26. SHARE CAPITAL (CONTINUED)

Series 3 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at \$25.00 Cdn per share on August 1, 2012 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one for one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007 and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or \$1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.32919 Cdn, if declared. For each succeeding five year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

Series 4 Cumulative Redeemable Preferred Shares

Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at \$25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of \$2.00 Cdn and 95% of the weighted average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or \$1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.390625 Cdn per share.

COMMON SHARES

All common shares are without nominal or par value.

Class A Shares (Multiple Voting)

Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

26. SHARE CAPITAL (CONTINUED)

Class B Shares (Subordinate Voting)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of \$0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of March, June, September and December of each year at a rate of \$0.000390625 Cdn per share, if declared.

The change in the number of common shares issued and fully paid, and in the number of common shares authorized, was as follows as at:

CLASS A SHARES (MULTIPLE VOTING)		
	December 31, 2011	January 31, 2011
Issued and fully paid		
Balance at beginning of year	316,109,537	316,231,937
Converted to Class B	(1,572,300)	(122,400)
Balance at end of year	314,537,237	316,109,537
Authorized	1,892,000,000	1,892,000,000

CLASS B SHARES (SUBORDINATE VOTING)		
	December 31, 2011	January 31, 2011
Issued and fully paid		
Balance at beginning of year	1,436,997,894	1,438,517,706
Issuance of shares	2,112,862	1,357,788
Repurchase of shares	(2,006,000)	(3,000,000)
Converted from Class A	1,572,300	122,400
	1,438,677,056	1,436,997,894
Held in trust under the PSU plan		
Balance at beginning of year	(27,459,674)	(25,098,637)
Purchased	(8,275,000)	(10,539,000)
Distributed	6,413,195	8,177,963
Balance at end of year	(29,321,479)	(27,459,674)
Balance at end of year	1,409,355,577	1,409,538,220
Authorized	1,892,000,000	1,892,000,000

During the fiscal year ended December 31, 2011, 2,006,000 Class B Shares (Subordinate Voting) were repurchased and cancelled in connection with the DSU plan, for a total amount of \$14 million (3,000,000 Class B Shares [Subordinate Voting] and \$16 million during the fiscal year ended January 31, 2011).

26. SHARE CAPITAL (CONTINUED)

DIVIDENDS

Dividends declared were as follows:

	Dividend declared for the fiscal years ended				Dividend declared after	
	December 31, 2011		January 31, 2011		December 31, 2011	
	Per share (Cdn\$)	Total (in millions of U.S.\$)	Per share (Cdn\$)	Total (in millions of U.S.\$)	Per share (Cdn\$)	Total (in millions of U.S.\$)
Class A common shares	0.10	\$ 32	0.10	\$ 31	0.03	\$ 7
Class B common shares	0.10	147	0.10	142	0.03	36
		179		173		43
Series 2 preferred shares	0.69	7	0.66	6	0.13	1
Series 3 preferred shares	1.32	3	1.32	3	0.33	1
Series 4 preferred shares	1.56	15	1.56	15	0.39	4
		25		24		6
		\$ 204		\$ 197		\$ 49

27 SHARE-BASED PLANS

PSU AND DSU PLANS

The Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During the fiscal year ended December 31, 2011, a combined total of 8,835,000 PSUs and DSUs were authorized for issuance (a combined total of 10,576,000 PSUs and DSUs during the fiscal year ended January 31, 2011).

The number of PSUs and DSUs has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	PSU	DSU	PSU	DSU
Balance at beginning of year	18,225,184	2,966,000	15,888,267	1,124,000
Granted	6,824,306	1,562,000	8,181,500	1,842,000
Performance adjustment	1,156,478	-	2,725,988	-
Exercised	(6,413,195)	-	(8,177,963)	-
Cancelled	(643,769)	(161,000)	(392,608)	-
Balance at end of year	19,149,004	4,367,000	18,225,184	2,966,000

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 70% to 150%. PSUs and DSUs generally vest three years following the grant date if the financial performance thresholds are met. For grants issued between February 1, 2009 and December 31, 2011, the vesting dates range from June 10, 2012 to June 10, 2014.

The weighted-average grant date fair value of PSUs and DSUs granted during the fiscal year ended December 31, 2011 was \$7.04 (\$4.31 during the fiscal year ended January 31, 2011). The fair value of each PSU and DSU granted was measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange and is based on the PSUs and DSUs that are expected to vest.

27. SHARE-BASED PLANS (CONTINUED)

The Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see note 26 – Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of \$31 million was recorded during the fiscal year ended December 31, 2011 with respect to the PSU and DSU plans (\$39 million during the fiscal year ended January 31, 2011).

SHARE OPTION PLANS

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 70,135,175 were available for issuance under these share option plans as at December 31, 2011.

Current share option plan – Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The most significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options terminate no later than seven years after the grant date.

The summarized information on the current share option plan is as follows as at December 31, 2011:

Exercise price range (Cdn\$)	Issued and outstanding		
	Number of options	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)
2 to 4	2,435,983	4.44	3.45
4 to 6	3,805,000	5.45	4.72
6 to 8	3,484,000	6.44	7.01
	9,724,983		

The number of options issued and outstanding under the current share option plan has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	6,388,414	4.22	2,580,000	3.45
Granted	3,598,000	6.99	3,870,000	4.72
Cancelled	(261,431)	5.13	(61,586)	3.45
Balance at end of year	9,724,983	5.22	6,388,414	4.22
Options exercisable at end of year	-	-	-	-

Performance share option plan – For options issued to key employees after May 27, 2003, and before June 1, 2009, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective. The options terminate no later than seven years after the grant date. As at December 31, 2011, target prices ranged between \$4 Cdn and \$11 Cdn.

27. SHARE-BASED PLANS (CONTINUED)

The summarized information on the performance share option plan is as follows as at December 31, 2011:

Exercise price range (Cdn\$)	Number of options	Issued and outstanding			Exercisable	
		Weighted-average target price (Cdn\$)	Weighted-average remaining life (Cdn\$)	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
2 to 4	5,712,725	4.41	1.09	2.98	5,637,725	2.99
4 to 6	4,805,938	6.01	2.45	5.50	4,785,938	5.50
6 to 8	90,000	8.00	3.46	7.90	67,500	7.90
8 to 10	5,189,200	8.00	3.44	8.53	3,891,900	8.53
	15,797,863				14,383,063	

The weighted average share price of options exercised during the fiscal year ended December 31, 2011 was \$6.70 (\$5.13 during the fiscal year ended January 31, 2011).

The number of options has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	26,497,775	5.06	31,254,075	4.90
Exercised	(2,112,862)	3.11	(1,357,788)	3.32
Cancelled	(630,550)	6.44	(860,000)	5.04
Expired	(7,956,500)	4.40	(2,538,512)	3.99
Balance at end of year	15,797,863	5.60	26,497,775	5.06
Options exercisable at end of year	14,383,063	5.35	14,240,338	4.75

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options are all vested, and terminate no later than 10 years after the grant date.

The number of options issued, outstanding and exercisable amounted to 1,727,000 as at December 31, 2011, and the exercise prices of these options range from \$12 Cdn to \$15 Cdn with a weighted-average remaining life of 0.23 years and a weighted-average exercise price of \$14.58 Cdn (1,828,000 options and \$14.58 Cdn as at January 31, 2011 and 2,143,000 options and \$14.58 Cdn as at February 1, 2010). For options ranging from \$15 Cdn to \$25 Cdn, the number of options issued, outstanding and exercisable amounted to 1,197,000 and \$21.63 Cdn as at January 31, 2011 and 3,024,000 options and \$20.45 Cdn as at February 1, 2010).

The number of options cancelled and expired amounted to 111,000 and 1,187,000 with a weighted-average exercise price of \$15.08 Cdn and \$21.64 Cdn, respectively, for the fiscal year ended December 31, 2011 (260,500 and 1,881,500 options and \$14.26 Cdn and \$19.57 Cdn for the fiscal year ended January 31, 2011).

27. SHARE-BASED PLANS (CONTINUED)

SHARE-BASED COMPENSATION EXPENSE FOR OPTIONS

The weighted-average grant date fair value of stock options granted during the fiscal year ended December 31, 2011 was \$2.43 per option (\$1.63 per option for the fiscal year ended January 31, 2011). The fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation for options issued before June 1, 2009, the share price at the grant date, and the following weighted-average assumptions for the fiscal years ended:

	December 31, 2011	January 31, 2011
Risk-free interest rate	2.21%	2.65%
Expected life	5 years	5 years
Expected volatility in market price of shares	44.53%	48.04%
Expected dividend yield	1.81%	2.09%

A compensation expense of \$7 million was recorded during the fiscal year ended December 31, 2011 with respect to share option plans (\$8 million during the fiscal year ended January 31, 2011).

EMPLOYEE SHARE PURCHASE PLAN

Under the employee share purchase plan, employees of the Corporation are eligible to purchase Class B Shares (Subordinate Voting) of the Corporation up to a maximum of 20% of their base salary to a yearly maximum of \$30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to \$7 million for the fiscal year ended December 31, 2011 (\$6 million for the fiscal year ended January 31, 2011). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

28 NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011
Trade and other receivables	\$ (87)	\$(190)
Inventories	(148)	303
Other financial assets and liabilities, net	(193)	26
Other assets	(8)	(43)
Trade and other payables	156	(32)
Provisions	(97)	(28)
Advances and progress billings in excess of related long-term contract inventories	(422)	392
Advances on aerospace programs	(128)	(247)
Retirement benefits liability	(178)	(209)
Other liabilities	77	485
	\$(1,028)	\$ 457

29 CREDIT FACILITIES

LETTER OF CREDIT FACILITIES

In May 2011 and June 2011, the Corporation renewed the BT and the BA letter of credit facilities, respectively. The letter of credit facilities and their maturities were as follows as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (calendar year)
December 31, 2011				
BT facility	\$4,399 ¹	\$3,805	\$ 594	2016 ²
BA facility	600	264	336	2014 ³
PSG facility	900	318	582	2012 ⁴
	\$5,899	\$4,387	\$1,512	
January 31, 2011				
BT facility	\$5,212 ¹	\$3,633	\$1,579	2013
BA facility	600	211	389	2011
PSG facility	900	352	548	2011 ⁴
	\$6,712	\$4,196	\$2,516	
February 1, 2010				
BT facility	\$5,201 ¹	\$3,921	\$1,280	2013
BA facility	600	484	116	2011
PSG facility	900	377	523	2010 ⁴
	\$6,701	\$4,782	\$1,919	

1 €3,400 million as at December 31, 2011 (€3,800 million as at January 31, 2011 and €3,750 million as at February 1, 2010).

2 The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a two-year amortizing period during which new letters of credit cannot be issued. The final maturity date of the facility is May 2016. The facility can be extended in May 2012 and May 2013 each for an additional year subject to approval by a majority of the bank syndicate members.

3 The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment of the facility. The facility can be extended annually on the anniversary date for an additional year subject to approval by a majority of the bank syndicate members.

4 The performance security guarantee facility ("PSG facility") is renewed and extended annually if mutually agreed. In June 2011, the facility was extended until June 2012 and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$753 million were outstanding under various bilateral agreements as at December 31, 2011 (\$708 million as at January 31, 2011 and \$453 million as at February 1, 2010).

The Corporation also uses numerous bilateral facilities with insurance companies to support BT's operations. An amount of \$2.1 billion was outstanding under such facilities as at December 31, 2011 (\$2.0 billion as at January 31, 2011 and \$1.5 billion as at February 1, 2010).

REVOLVING CREDIT FACILITY

In June 2011, the Corporation also renewed its unsecured revolving credit facility, increasing the amount available from \$500 million to \$750 million. The \$750-million unsecured revolving credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on the Corporation's credit ratings. This facility is available for cash drawings for the general working capital needs of the Corporation and the unsecured revolving credit facilities were unused since their inception.

FINANCIAL COVENANTS

The Corporation is subject to various financial covenants under its BA and BT letter of credit facilities and its revolving credit facility, which must be met on a quarterly basis. The BA letter of credit and revolving credit facilities include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio all calculated based on an adjusted consolidated basis i.e. excluding BT. The BT financial covenants require minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in note 30 - Capital management or to the specific terms used in the MD&A.

29. CREDIT FACILITIES (CONTINUED)

In addition, the Corporation must maintain a minimum BT liquidity of €600 million (\$776 million) at the end of each calendar quarter and a minimum BA liquidity of \$500 million at the end of each fiscal quarter. These conditions were all met as at December 31, 2011, January 31, 2011 and February 1, 2010.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

INVESTED COLLATERAL

These investments were used as collateral for the previous €3.8-billion (\$5.2-billion) BT letter of credit facility and for the previous \$600-million BA letter of credit facility. Under the BA and BT letter of credit facilities, invested collateral is no longer required. As a result, the invested collateral required under the previous letter in credit facilities, amounting to €406 million (\$584 million) for BT and \$121 million for BA, has been released leading to an increase of liquidity during the fiscal year ended December 31, 2011. Invested collateral consisted mainly of bonds (government and agency notes and bonds, corporate bonds and covered bonds), commercial paper and certificates of deposit, held with a custodian.

30 CAPITAL MANAGEMENT

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

The Corporation adjusted its global metrics to align them to those that the Corporation's believe should be used to assess its creditworthiness and to reflect the new accounting rules under IFRS:

- Adjusted debt now includes the sale and leaseback obligation, as this obligation is recognized on the consolidated statements of financial position under IFRS. In addition, adjusted debt now excludes:
 - the fair value of derivatives designated in fair value hedge relationships, as such derivatives are related to our interest rate hedging program (i.e. they do not represent a principal repayment obligation); and
 - the net retirement benefit liability which is now monitored separately from our global metrics (see below).
- Adjusted interest was redefined to include interest paid (as per the supplemental information provided in the consolidated statements of cash flows), an interest adjustment for operating leases and accretion expense on sale and leaseback obligations.

Furthermore, the Corporation no longer monitors the capitalization metric as such metrics have become less relevant, in particular in the context of the volatile equity measurement that arises under IFRS.

The Corporation's objectives with regard to its global metrics are as follows:

- adjusted EBIT to adjusted interest ratio greater than 5.0; and
- adjusted debt to adjusted EBITDA ratio lower than 2.5.

Global metrics - The following global metrics do not represent the ratios required for bank covenants. A reconciliation of the global metrics to the most comparable IFRS financial measures are provided in the Non-GAAP financial measures section of the MD&A for the fiscal year ended December 31, 2011.

GLOBAL METRICS		
	December 31, 2011	January 31, 2011
Adjusted EBIT ¹	\$1,271	\$1,262
Adjusted interest ²	\$ 271	\$ 251
Adjusted EBIT to adjusted interest ratio	4.7	5.0
Adjusted debt ³	\$5,311	\$5,296
Adjusted EBITDA ⁴	\$1,657	\$1,683
Adjusted debt to adjusted EBITDA ratio⁵	3.2	3.1

¹ Represents EBIT plus interest adjustment for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).

² Represents interest paid (as per the supplemental information provided in the consolidated statements of cash flows), plus accretion expense on sale and leaseback obligations and interest adjustments for operating leases.

³ Represents long-term debt adjusted for the fair value of derivatives designated in fair value hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.

⁴ Represents EBITDA plus amortization and interest, adjusted for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of derivatives before their contractual maturity dates).

⁵ The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

30. CAPITAL MANAGEMENT (CONTINUED)

In addition to the above global level metrics, the Corporation separately monitors its net retirement benefit liability which amounted to \$3,213 million as at December 31, 2011 (\$1,946 million as at January 31, 2011). The measurement of this liability is dependent on numerous key long-term assumptions such as those regarding future compensation increases, inflation rates, mortality rates and current discount rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. For example, discount rates have reached an historical low during the fiscal year ended December 31, 2011 resulting in a net retirement benefit liability increase of \$1.5 billion. The Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect. For details on the increase in the net benefit retirement liability due to changes in discount rate assumptions and risk mitigation initiatives, see the Retirement benefits section of the MD&A.

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders.

See note 29 – Credit facilities for a description of bank covenants.

31 FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest rate risk.

CREDIT RISK

The Corporation is exposed to credit risk through its normal treasury activities on its derivative financial instruments and other investing activities. The Corporation is also exposed to credit risk through its trade receivables arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and Corporate Investment Management Policy (the "Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and rated money market funds based on pre-established consolidated counterparty risk limits per financial institution and funds.

Credit risks arising from the Corporation's normal commercial activities, lending activities and under indirect financing support are managed and controlled by the two manufacturing segments, BA and BT. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessments and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maximum exposure to credit risk—The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in note 12—Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aircraft loans and lease receivables	\$432	\$397	\$279
Derivative financial instruments	\$523	\$501	\$450
Investment in securities	\$341	\$325	\$279
Investment in financing structures	\$192	\$205	\$204

Credit quality—The credit quality, using external and internal credit rating systems, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables and aircraft loans and lease receivables and servicing fees. BA receivables are usually not externally or internally quoted, however the credit quality of customers is dynamically reviewed and is based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft loans and lease receivables are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft loans and lease receivables portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to note 35—Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

LIQUIDITY RISK

The Corporation manages liquidity risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements and the funding of product developments and other financial commitments. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis—The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows as at December 31, 2011:

	Carrying amount	Undiscounted cash flows (before giving effect to the related hedging instruments)						Total
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	
Cash and cash equivalents	\$3,372	\$3,372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,372
Trade and other receivables	\$1,408	1,375	21	-	-	-	12	1,408
Other financial assets ¹	\$1,283	170	204	136	324	623	92	1,549
Assets		4,917	225	136	324	623	104	6,329
Trade and other payables	\$3,210	3,010	27	2	17	-	154	3,210
Other financial liabilities ¹	\$ 697	291	83	153	228	141	-	896
Long-term debt								
Principal	\$4,941	189	242	1,118	2,586	415	-	4,550
Interest		293	574	564	738	294	-	2,463
Liabilities		3,783	926	1,837	3,569	850	154	11,119
Net amount		\$1,134	\$(701)	\$(1,701)	\$(3,245)	\$(227)	\$ (50)	\$(4,790)

¹ The carrying amount of other financial assets excludes the carrying amount of derivative financial instruments and the carrying amount of other financial liabilities excludes the carrying amount of derivative financial instruments and the current portion of long-term debt.

Other financial liabilities include government refundable advances. Under the respective agreements, the Corporation is required to pay amounts to governments at the time of the delivery of aircraft. Due to uncertainty about the number of aircraft to be delivered and the timing of delivery of aircraft, the amounts shown in the table above may vary.

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at December 31, 2011:

	Nominal value (USD equivalent)	Undiscounted cash flows ²					Total
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	
Derivative financial assets							
Forward foreign exchange contracts	\$ 9,884	\$ 203	\$ 21	\$ -	\$ -	\$ -	\$ 224
Interest-rate derivatives	2,822	65	73	106	50	18	312
	\$12,706	\$ 268	\$ 94	\$106	\$ 50	\$18	\$ 536
Derivative financial liabilities							
Forward foreign exchange contracts	\$ 9,955	\$(267)	\$(40)	\$ -	\$ -	\$ -	\$(307)
Interest-rate derivatives	1,016	10	11	13	(72)	-	(38)
	\$10,971	\$(257)	\$(29)	\$ 13	\$(72)	\$ -	\$(345)

² Amounts denominated in foreign currency are translated at the period end exchange rate.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

MARKET RISK

Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks in the ordinary course of business through its international operations, in particular to the Canadian dollar, pound sterling and euro. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's consolidated financial statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions that would result in the creation of an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments' management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the FX Policy.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in each currency. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments also mitigate foreign currency risks by maximizing transactions in their functional currency for their operations such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item.

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded in its statement of financial position. The following impact on EBT for the fiscal year ended December 31, 2011, is before giving effect to cash flow hedge relationships.

		Effect on EBT				
		CAD/USD	GBP/USD	EUR/USD	EUR/SEK	Other
Gain (loss)	+10%	\$21	\$(3)	\$14	\$25	\$19

The following impact on OCI for the fiscal year ended December 31, 2011 is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

		Effect on OCI before income taxes				
	Variation	CAD/USD	GBP/USD	EUR/USD	EUR/SEK	Other
Gain (loss)	+10%	\$190	\$4	\$49	\$29	\$74

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities including long-term debt synthetically converted to variable interest rates (see note 23 – Long-term debt). The Corporation is exposed from time to time to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer in the future. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, by matching asset and liability positions, including the use of financial instruments, such as interest-rate swap agreements. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements, cross currency interest-rate swap agreements and interest-rate cap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, lease subsidies and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements.

Sensitivity analysis

The interest rate risk primarily relates to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of December 31, 2011 and January 31, 2011, the impact on EBT would have been a negative adjustment of \$52 million for December 31, 2011 (\$69 million for January 31, 2011).

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts disclosed in these consolidated financial statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the Corporation has immediate access. However, there is no active market for most of the Corporation's financial instruments. In the absence of an active market, the Corporation determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, credit spreads, default probability, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

METHODS AND ASSUMPTIONS

The methods and assumptions used to measure the fair value are as follows:

Financial instruments whose carrying value approximates fair value – The fair values of trade and other receivables, certain aircraft loans and lease receivables, restricted cash, trade and other payables, and sales and leaseback obligations measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because they bear variable interest rates or because the terms and conditions are comparable to current market terms and conditions for similar items.

Aircraft loans and lease receivables designated as FVTP&L – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using market data for interest rates, published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumption to take into account factors that market participants would consider when pricing these financial assets. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting the specific factors of the current aircraft market.

Lease subsidies – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of lease subsidies incurred in connection with the sale of commercial aircraft. The fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without a published credit rating.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts i.e. taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flow analyses and market data to estimate the fair value of forward agreements and interest-rate derivatives. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rates.

The Corporation uses an option-adjusted spread model to estimate the fair value of the call feature on long-term debt, using market data such as interest-rate swap curves and external quotations.

Long-term debt – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

Government refundable advances and Vendor non-recurring costs – The Corporation uses discounted cash flow analyses to estimate the fair value. The fair value is calculated using market data for interest rates and credit spreads.

FAIR VALUE HIERARCHY

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows as at December 31, 2011:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	\$ 440	\$ -	\$ -	\$440
Derivative financial instruments ¹	548	-	548	-
Servicing fees	57	-	-	57
Investment in securities	384 ²	155	229	-
Investment in financing structures	201	-	150	51
	\$1,630	\$155	\$927	\$548
Financial liabilities				
Lease subsidies	\$ 140	\$ -	\$ -	\$140
Derivative financial instruments ¹	344	-	344	-
	\$ 484	\$ -	\$344	\$140

1. Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, and cross-currency interest-rate swap agreements and embedded derivatives.

2. Excludes \$15 million of investments held at cost.

Changes in fair value of Level 3 financial instruments were as follows for the fiscal years ended December 31, 2011 and January 31, 2011:

	Aircraft loans and lease receivables	Servicing fees	Investment in financing structures	Lease subsidies
Balance as at February 1, 2010	\$280	\$48	\$30	\$(196)
Gains (losses) included in net income	18	2	4	(11)
Issuances	131	-	3	(5)
Settlements	(22)	(1)	-	51
Balance as at January 31, 2011	407	49	37	(161)
Gains (losses) included in net income	41	9	12	1
Issuances	38	-	-	(14)
Settlements	(46)	(1)	2	34
Balance as at December 31, 2011	\$440	\$57	\$51	\$(140)

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity to selected changes of assumptions for Level 3 hierarchy

When measuring Level 3 financial instruments at fair value, some assumptions may not be derived from an observable market. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at December 31, 2011:

Impact on EBT	Change in carrying value		Change of assumption
	Change in fair value recognized in net income during the fiscal year ended December 31, 2011	Downgrade the internally assigned credit rating of unrated customers by 1 notch	Increase the liquidity risk by 100 bps
Gain (loss)			
Aircraft loans and lease receivables	\$(10)	\$(18)	\$(28)

33 TRANSACTIONS WITH RELATED PARTIES

The Corporation's related parties are its joint ventures, associates and key management personnel.

JOINT VENTURES AND ASSOCIATES

The Corporation buys and sells products and services on arm's length terms with some of its joint ventures and associates in the ordinary course of business. The following table presents the portion of these transactions that is attributable to the interests of the other venturers, and transactions with associates for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Joint ventures	Associates	Joint ventures	Associates
Sales of products and services, and other income	\$59	\$218	\$143	\$262
Purchase of products and services, and other expenses	\$10	\$ 95	\$ 12	\$ 26

The following table presents the Corporation's outstanding balances with joint ventures and associates as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Joint ventures	Associates	Joint ventures	Associates	Joint ventures	Associates
Receivables	\$59	\$32	\$93	\$36	\$31	\$14
Payables	\$ 1	\$ 2	\$ 3	\$ 2	\$ 4	\$ 1
Advances and progress billing in excess of long-term contract inventories	\$ -	\$ -	\$ -	\$60	\$ -	\$18

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL**

The annual remuneration and related compensation costs of the executive and non-executive board members and key Corporate management, defined as the President and Chief Executive Officer of Bombardier Inc., the Presidents and Chief Operating Officers of BA and BT, and the Senior Vice Presidents of Bombardier Inc., were as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011
Share-based payments	\$ 13	\$ 9
Salaries, bonuses and other short-term benefits	12	12
Retirement benefits	4	4
Other long-term benefits	1	1
	\$ 30	\$ 26

34 UNCONSOLIDATED SPECIAL PURPOSE ENTITIES

The following table summarizes the assets and liabilities of unconsolidated SPEs in which the Corporation had a significant exposure as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of regional aircraft	\$9,071	\$6,603	\$9,992	\$7,293	\$10,948	\$8,405

The Corporation has provided credit and/or residual value guarantees to certain SPEs created solely to provide financing related to the sale of commercial aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs long-term debt. The Corporation retains certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. Residual value guarantees typically cover a percentage of the first loss from a guaranteed value upon the sale of the underlying aircraft. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation's maximum potential exposure was \$1.9 billion, of which \$350 million was recorded as provisions and related liabilities as at December 31, 2011 (\$2.0 billion and \$439 million, respectively, as at January 31, 2011 and \$2.1 billion and \$573 million, respectively, as at February 1, 2010). The Corporation's maximum exposure under these guarantees is included in note 35 - Commitments and contingencies.

The Corporation concluded that it did not control these SPEs.

35 COMMITMENTS AND CONTINGENCIES

In relation to the sale of commercial aircraft and related financing commitments, the Corporation enters into various sale support arrangements, including credit and residual value guarantees and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table. These off-balance sheet risks are in addition to the commitments and contingencies described elsewhere in these consolidated financial statements. Some of these off-balance sheet risks are also included in note 34 – unconsolidated special purposes entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

The table below presents the maximum potential exposure for each major group of exposure, as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aircraft sales			
Credit (a)	\$1,389	\$1,453	\$1,524
Residual value (a)	2,108	2,239	2,425
Mutually exclusive exposure ¹	(771)	(806)	(894)
Total credit and residual value exposure	\$2,726	\$2,886	\$3,055
Trade-in commitments (b)	\$1,619	\$1,214	\$ 761
Conditional repurchase obligations (c)	\$ 605	\$ 594	599
Other²			
Credit and residual value (e)	\$ 156	\$ 159	\$ 157
Performance guarantees (f)	\$ 36	\$ 34	\$ 44

1 Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise. Therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

2 The Corporation has also provided other guarantees (see section g) below)

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to \$456 million as at December 31, 2011 (\$493 million as at January 31, 2011 and \$536 million as at February 1, 2010) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third-party evaluations adjusted to reflect specific factors of the current aircraft market, and the anticipated proceeds from other assets covering such exposures. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to \$140 million as at December 31, 2011 (\$161 million as at January 31, 2011 and \$196 million as at February 1, 2010). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the underlying aircraft and lease subsidies.

AIRCRAFT SALES

a) Credit and residual value guarantees – The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 66% of the total maximum credit risk as at December 31, 2011 (64% as at January 31, 2011 and 62% as at February 1, 2010).

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

35. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, and the period in which they can be exercised as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	\$ 59	\$ 58	\$ 35
From 1 to 5 years	840	758	634
From 5 to 10 years	1,094	1,257	1,415
From 10 to 15 years	115	166	341
	\$2,108	\$2,239	\$2,425

b) Trade-in commitments—In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	\$ 694	\$ 468	\$377
From 1 to 3 years	330	417	384
Thereafter	595	329	-
	\$1,619	\$1,214	\$761

c) Conditional repurchase obligations—In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	\$496	\$345	\$524
From 1 to 3 years	35	140	40
Thereafter	74	109	35
	\$605	\$594	\$599

d) Fractional ownership put options—Under the U.S. *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled \$396 million as at December 31, 2011 (\$498 million as at January 31, 2011 and \$598 million as at February 1, 2010). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

OTHER GUARANTEES

e) Credit and residual value guarantees—In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to \$47 million as at December 31, 2011, as at January 31, 2011 and as at February 1, 2010. This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements, amounting to \$109 million as at December 31, 2011 (\$112 million as at January 31, 2011 and \$110 million as at February 1, 2010), in BT. These guarantees are mainly exercisable in 2012.

35. COMMITMENTS AND CONTINGENCIES (CONTINUED)

f) Performance guarantees—In certain projects carried out through consortia or other partnership vehicles in BT, partners may be jointly and severally liable to the customer for a default by the other partners. In such cases partners would normally provide counter indemnities to each other. These obligations and guarantees typically extend until final product acceptance by the customer and in some case to the warranty period.

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to \$36 million as at December 31, 2011 (\$34 million as at January 31, 2011 and \$42 million as at February 1, 2010), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure is not significant, assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

g) Other—In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

OPERATING LEASES

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. Future minimum lease payments, mostly related to buildings and equipment, under non-cancellable operating leases are due as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Within 1 year	\$100	\$108	\$ 98
Between 1 and 5 years	216	248	258
More than 5 years	271	227	230
	\$587	\$583	\$586

Rent expense was \$123 million for the fiscal year ended December 31, 2011 (\$115 million for the fiscal year ended January 31, 2011).

OTHER COMMITMENTS

The Corporation also has purchase obligations, under various agreements, made in the normal course of business. The purchase obligations are as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Within 1 year	\$ 5,669	\$ 5,975	\$5,111
Between 1 and 5 years	3,912	3,711	3,333
More than 5 years	464	426	398
	\$10,045	\$10,112	\$8,842

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to \$195 million and \$50 million, respectively, as at December 31, 2011 (\$184 million and \$7 million, respectively, as at January 31, 2011).

LITIGATIONS

In the normal course of operations, the Corporation is a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings pending as at December 31, 2011, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

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OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies

Our commitments and contingencies are described in Note 25 – Commitments and contingencies to the Consolidated Financial Statements.

Credit and residual value guarantees

In connection with the sale of certain of our products, mainly commercial aircraft, we have provided financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their acquisition.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging within 1 to 16 years) under the relevant financing arrangements. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset is below the guaranteed value. In most cases, these are guarantees provided at the end of a financing arrangement, ranging within 1 to 16 years. The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically the first loss from a guaranteed level. A claim under the guarantee may typically be made only on the sale of the underlying asset to a third party.

When credit and residual value guarantees are provided in connection with a financing arrangement for the same underlying asset, residual value guarantees can only be exercised if the credit guarantee expires without having been exercised and, as such, are mutually exclusive.

For more details, refer to Note 25 – Commitments and contingencies of the Consolidated Financial Statements.

Financing commitments

We sometimes provide financing support to facilitate our customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions, or providing assurance that debt and equity are available to finance such acquisitions. We may also provide interim financing to customers while permanent financing is being arranged.

As at January 31, 2010, we were committed to arrange financing for two customers in relation to the future sale of aircraft scheduled for delivery through fiscal year 2012, amounting to \$142 million. In connection with these commitments, we have provided credit spread guarantees. The recorded fair value of these guarantees amounted to \$9 million as at January 31, 2010. We mitigate such exposure from our financing rate commitments by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from our commitment.

We anticipate that we will be able to satisfy our financing commitments to our customers through third-party financing. However, our ability to satisfy our financing commitments may be affected by financial difficulties in the commercial airline industry in general and of certain customers in particular, credit scarcity in the market, and by our current and future credit condition.

Other commitments and contingencies

In connection with our contracts with LUL Nominee BCV Ltd. and LUL Nominee SSL Ltd. for the modernization of the London Underground, we are committed to provide collateral (surety bonds and letters of credit) in support of our obligations. These commitments extend to calendar year 2018. As at fiscal year 2010, £150 million (\$240 million) of surety bonds maturing in 2014 were outstanding. The period covered by the surety bonds must be extended by one year, every year. In the event that the bonds are not extended, we could have to provide, within one year, alternate collateral, which could reduce availability under the BT's letter of credit facility.

OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies

Our commitments and contingencies are described in Note 25 – Commitments and contingencies, to the Consolidated Financial Statements.

Credit and residual value guarantees

In connection with the sale of certain of our products, mainly commercial aircraft, we have provided financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their acquisitions.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 16 years) under the relevant financing arrangements. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees are provided as part of a financing arrangement, (ranging from 1 to 15 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only upon the sale of the underlying asset to a third party.

When credit and residual value guarantees are provided in connection with a financing arrangement for the same underlying asset, residual value guarantees can only be exercised if the credit guarantee expires without having been exercised and, as such, the guarantees are mutually exclusive.

For more details, refer to Note 25 – Commitments and contingencies, to the Consolidated Financial Statements.

Financing commitments

We sometimes provide financing support to facilitate our customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions or providing assurance that debt and equity are available to finance such acquisitions.

As at January 31, 2011, we were committed to arrange financing for two customers in relation to the future sale of aircraft scheduled for delivery through the 11-month period ended December 31, 2011, amounting to \$79 million. In connection with these commitments, we have provided credit spread guarantees. The recorded fair value of these guarantees amounted to \$2 million as at January 31, 2011. We mitigate such exposure from our financing rate commitments by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from our commitment.

We anticipate that we will be able to satisfy our financing commitments to our customers through third-party financing. However, our ability to satisfy our financing commitments may be affected by several factors, including financial difficulties in the commercial airline industry in general or certain customers in particular, credit scarcity in the market and our current or future credit condition.

OFF-BALANCE SHEET ARRANGEMENTS

CREDIT AND RESIDUAL VALUE GUARANTEES

In connection with the sale of certain of our products, mainly commercial aircraft, we have provided financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their acquisitions.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 15 years) under the relevant financing arrangements. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (ranging from 1 to 14 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only upon the sale of the underlying asset to a third party.

When credit and residual value guarantees are provided in connection with a financing arrangement for the same underlying asset, residual value guarantees can only be exercised if the credit guarantee expires without having been exercised and, as such, the guarantees are mutually exclusive.

For more details, refer to note 35 – Commitments and contingencies, to the consolidated financial statements.

FINANCING COMMITMENTS

We sometimes provide financing support to facilitate our customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions or providing assurance that debt and equity are available to finance such acquisitions.

As at December 31, 2011, we were not committed to arrange financing for customers in relation to the future sale of aircraft.

FINANCING STRUCTURES RELATED TO THE SALE OF COMMERCIAL AIRCRAFT

In connection with the sale of commercial aircraft, BA has provided credit and/or residual value guarantees to certain entities created solely to provide financing related to the sale of commercial aircraft.

Typically, these entities are financed by third-party long-term debt and equity. Often, equity investors benefit from tax incentives. The aircraft serve as collateral for the entities' long-term debt. We retain certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. We also provide administrative services to certain of these entities in return for a market fee.

For more details, refer to note 34 – Unconsolidated special purpose entities, to the consolidated financial statements.

FINANCIAL ARRANGEMENTS

In the normal course of its business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €580 million (\$751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [\$340 million] as at January 31, 2011). Trade receivables of €183 million (\$250 million) and €581 million (\$812 million), respectively, were sold to these facilities during the fourth quarter and fiscal year ended December 31, 2011 (€122 million [\$158 million] and €442 million [\$584 million], respectively, during the fourth quarter and fiscal year ended January 31, 2011).

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Key Personnel



Massachusetts Bay Commuter Railroad Company, LLC
General Manager Resume

Hugh J. Kiley, Jr.

CURRENT EXPERIENCE

Massachusetts Bay Commuter Railroad Company, LLC
General Manager (2010 - present)

Serves as the chief executive officer of MBCR, with overall responsibility for the Company's day-to-day operations, strategic direction, and nearly 2,000 employees. Mr. Kiley oversees the management of the Operating Agreement with the MBCR's sole client, the Massachusetts Bay Transportation Authority (MBTA), and works in partnership with the MBTA to provide service to more than 140,000 daily passengers.

American Public Transportation Association

Vice Chairman, Commuter Rail CEOs Subcommittee (2012 - present)

PAST EXPERIENCE

Norfolk Southern Corporation

Assistant Vice President - Operations (2001-2010)

Directly served the Chief Operating Officer on all ranges of operations planning, design, and security, including extensive responsibilities for coordinating Norfolk Southern's freight operations with Amtrak intercity passenger trains and the services of the five commuter operators that operate on the freight carrier's 20,000-mile system in Greater Chicago, New York, New Jersey, Pennsylvania, and northern Virginia.

Mr. Kiley served from 2000-2010 as Co-Chairman of The Chicago Planning Group for the Association of American Railroads, responsible for the Chicago Region Environmental and Transportation Efficiency Program (CREATE). One of the largest public-private partnerships in the country, CREATE had as its goal the separation of freight and passenger train infrastructure and operations in order to improve network fluidity for approximately 800 passenger trains and de-congest one of the most severe railroad bottlenecks in the world. Mr. Kiley also spearheaded similar initiatives in New Orleans and Saint Louis. He concurrently served as Chairman of the Rail Security Working Committee, dealing with post-9/11 security matters affecting both passenger and freight operations nationwide.

Assistant Vice President - Transportation (1998-2001)

Supervised approximately 350 employees in Norfolk Southern's Crew Dispatching, Network Operations Planning, Joint Facilities, Terminal Operations, Service Design and Planning, and Capital Planning Groups. This position gave Mr. Kiley responsibility for overseeing the day-to-day workings of Norfolk Southern's trackage rights agreements with six passenger carriers: Amtrak, Metro-North, SEPTA, New Jersey Transit, the Virginia Railway Express, and Metra.

Consolidated Rail Corporation (Conrail)

Vice President - Service Design and Planning (1996-1998)

An officer of the Corporation, responsible for scheduling and planning service for all product groups over Conrail's fourteen-state network. Mr. Kiley's duties included the scheduling and performance of all Amtrak and commuter passenger trains operating over the Conrail system, including MBTA trains on the Worcester Line.

Assistant Vice President - Performance and Process Management (1995-1996)
Assistant Vice President to the Chairman - Program Management (1994-1995)
General Manager - National Customer Service Center (1990-1994)

Various positions in the Transportation Department of increasing responsibility (1976-1990)

Penn Central Transportation Company

Various positions in the Transportation Department (1970-1976)

Began railroad career as a brakeman at South Station, Boston. During this period, Mr. Kiley worked union jobs in both passenger and freight service on lines that today make up the MBTA Commuter Rail system.

EDUCATION

University of Rhode Island - Bachelor of Science, Administration (1975)

Northwestern University -Advanced Transportation Management Program

Pennsylvania State University - Executive Development Program

University of Pennsylvania - Wharton Financial Management Program

FORMER MEMBER

Indiana Harbor Belt Railroad Company - Board of Directors (1996-1998)

General Manager References

John P. Tolman

Vice President and National Legislative Representative
Brotherhood of Locomotive Engineers and Trainmen - Teamsters Rail Conference

25 Louisiana Avenue, N.W.
Washington, District of Columbia 20001
(202) 624-8776
tolman@ble.org

Mr. Tolman and Mr. Kiley served together as Agreement employees in train service in Massachusetts in the early 1970s. Mr. Tolman was a locomotive engineer on trains where Mr. Kiley served as a conductor. In more recent times, Mr. Tolman and Mr. Kiley collaborated on union-related initiatives, as well as high-speed rail plans in Illinois.

Edward R. Hamberger

President and Chief Executive Officer
Association of American Railroads

425 Third Street, S.W., Suite 1000
Washington, District of Columbia 20024
(202) 639-2400
ehamberger@aar.org

Mr. Kiley served the Association of American Railroads (AAR) as Co-Chairman of The Chicago Planning Group from 2000-2010, and as Chairman of The New Orleans Gateway Project from 2003 to 2010.

Stephen C. Tobias
Member, Board of Directors
Canadian Pacific Railway Company

Retired in April 2009 from Norfolk Southern Corporation as Vice Chairman and Chief Operating Officer, and served in 2012 as Interim Chief Executive Officer of Canadian Pacific.

3854 Augusta Stage Coach Road
Garnett, South Carolina 29922
(757) 620-6942
sctobias67@gmail.com (Telephone contact preferred)

Mr. Kiley worked for Mr. Tobias for twelve years at Norfolk Southern, with Mr. Kiley reporting directly to Mr. Tobias from 2003 to 2009 during the latter's tenure as Vice Chairman and Chief Operating Officer of Norfolk Southern.

George Hardwidge
Deputy Executive Director Operations
Chicago Commuter Rail Service Board (Metra)

547 West Jackson Blvd.
Chicago, Illinois 60661
(312) 322-8999
ghardwid@metrarr.com

Mr. Kiley and Mr. Hardwidge began working together in 1998, when Mr. Hardwidge was the Chief Transportation Officer of Metra. Mr. Kiley and Mr. Hardwidge initiated the plan to separate commuter, high-speed, and freight rail traffic to allow for service improvement and volume growth in all sectors.

Gerhard A. Thelen
Vice President Operations Planning and Support
Norfolk Southern Corporation

3 Commercial Place
Norfolk, Virginia 23510
(757) 629-2378
gerhard.thelen@nscorp.com

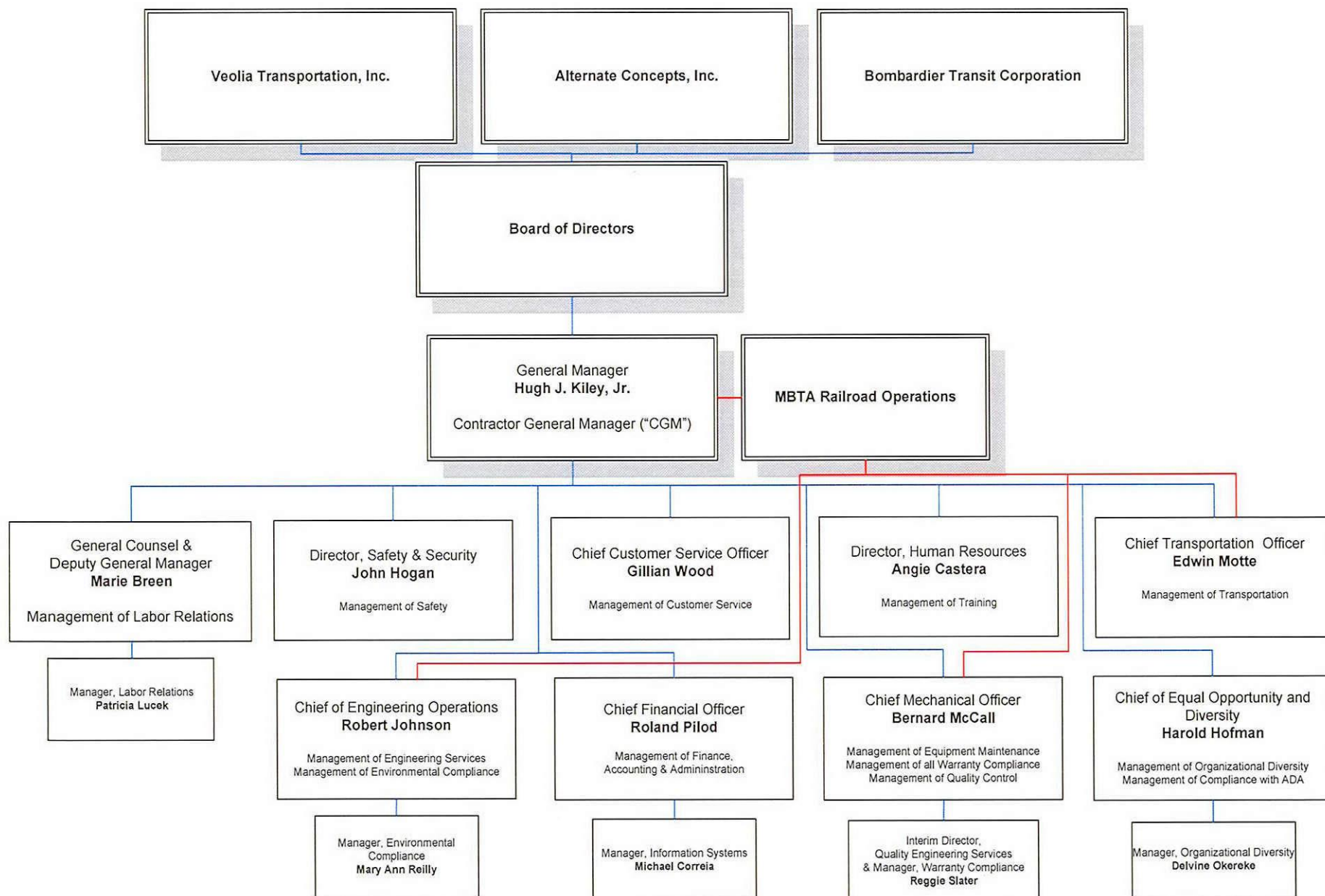
Although Mr. Kiley and Mr. Thelen were fellow senior leaders at Conrail and, after its acquisition, at Norfolk Southern, they began working together in 1978 when they were junior Transportation and Mechanical officers, respectively. Mr. Kiley and Mr. Thelen have collaborated on facility designs and the use of public-private partnerships to fund a range of operating improvement initiatives.

Organization



Organization

Massachusetts Bay Commuter Railroad Company Organizational Chart



Massachusetts Bay Commuter Railroad Company Chain-of-Command and Decision-Making Process and Authority

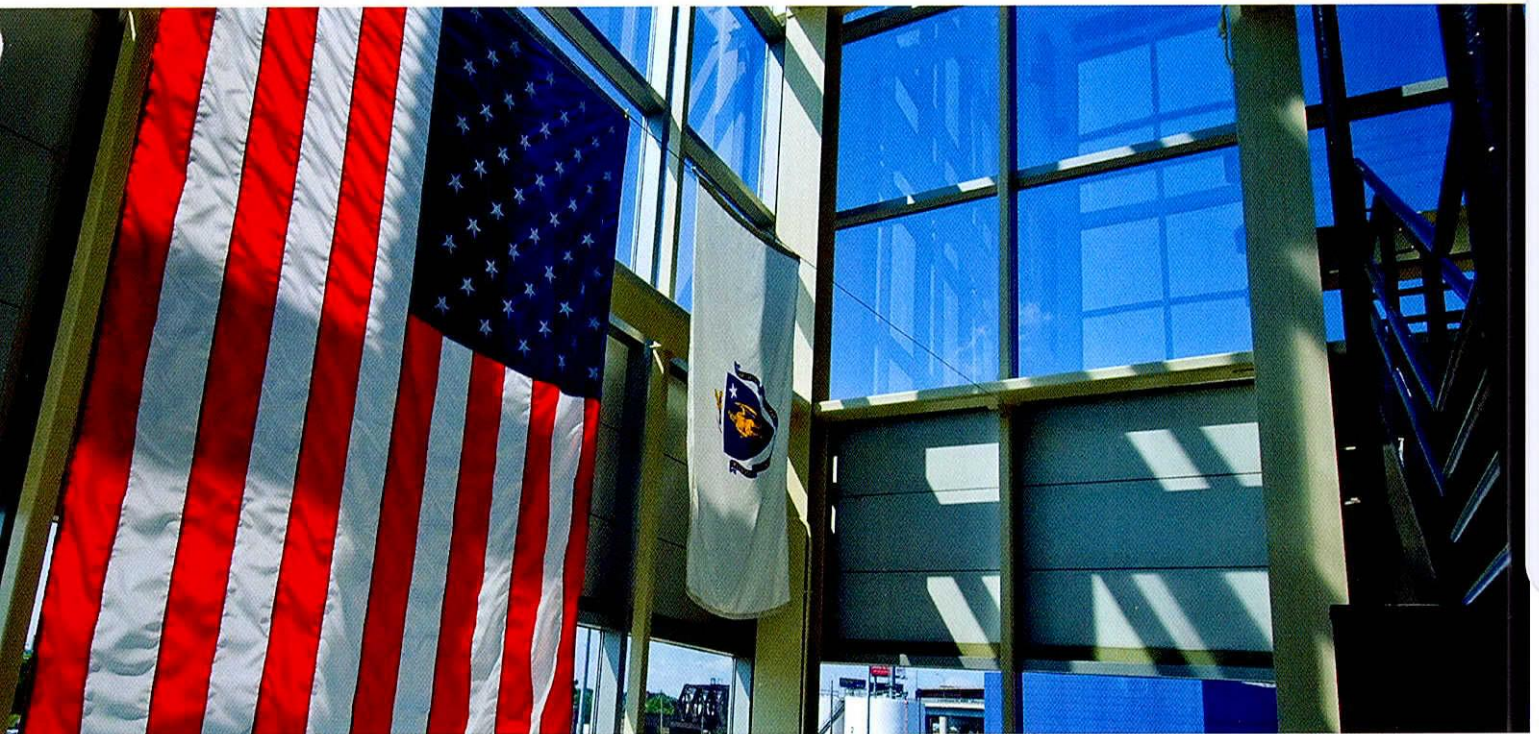
The MBCR General Manager (hereinafter “GM”) will be on-site on a full-time basis, solely dedicated to the MBTA’s Commuter Rail Service. Furthermore, the GM will have overall responsibility for the Contract, and will be empowered by the contractor to make immediate decisions as necessary to maintain safe and efficient operations. The GM will be legally authorized to commit the contractor to enter into supplemental work projects with a value up to \$1 million and to approve purchases up to \$1 million. Any supplemental work projects or other contractual commitments in excess of \$1 million may be subject to approval by the contractor’s Board of Directors. Officers reporting directly to the GM will be authorized to make procurement decisions up to a specific threshold. Such thresholds will be commensurate with each officer’s departmental functions and responsibilities.

The GM will be responsible for managing both the day-to-day operations of MBCR as well as serving as an on-call, on-duty liaison to the MBTA Department of Railroad Operations (“RRO”). With respect to the GM’s internal, MBCR responsibilities, the GM will get daily briefings on the status of the Commuter Rail operation, including real-time updates on unanticipated occurrences. The GM will have ultimate responsibility for planning all facets of the operation, including the delivery of customer service and the redress of customer dissatisfaction. Internal protocols will ensure that, the GM is notified in all incidences of a train delay of more than ten minutes, a mechanical or other equipment failure affecting the performance of a scheduled revenue train, and the occurrence of an employee, passenger, or third-party injury on the MBTA’s property. Upon such notification, in addition to ensuring adherence to the MBTA’s notification procedures, the GM will ensure an appropriate response by internal MBCR staff, with the objective always being the minimization of service disruption and the maximization of employee and rider safety.

The GM will maintain a consistent and proactive relationship with RRO. The GM will establish scheduled, weekly meetings with the MBTA Director of Railroad Operations, which will involve a review of the most recent operational metrics including on-time performance, vehicle availability, safety statistics, and customer complaints. The GM will contact the Director of RRO by telephone at his earliest opportunity upon learning of a service delay, service disruption, or other unanticipated occurrence, and will report directly thereafter on efforts to remedy the situation. The GM will present to the Director of RRO a root cause analysis report within a reasonable period of time following every service delay or service disruption, which will explore the causes of the failure as well as proactive steps planned by MBCR to minimize the chance of its recurrence.

Finally, in addition to the role played by the GM in liaising with the MBTA RRO, the GM’s subordinates at MBCR shall, in their respective areas of responsibility, keep their subject-area counterparts in the MBTA RRO apprised of unusual operational occurrences. The GM, and the GM’s subordinates in the MBCR operational departments, will be available at all times to field questions from the MBTA RRO as they arise.

Experience of the Firms



FORM E-1

PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation, Alternate Concepts and Bombardier Transit Corp.
Years of Experience:	9 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Amended and Restated Operating Agreement Between Massachusetts Bay Transportation Authority and Massachusetts Bay Commuter Railroad Company, LLC – Massachusetts and Rhode Island The Massachusetts Bay Commuter Railroad Company, LLC (MBCR) has operated the MBTA's commuter rail system since July 1, 2003. MBCR was created for the sole purpose of operating, maintaining, and managing the MBTA's service and has unparalleled knowledge of the unique circumstances associated with the MBTA's commuter rail system, including complex Right-of-Way management, capacity restrictions, sophisticated Labor Relations issues, and ongoing budgetary constraints. As highlighted below, our successful operation of the MBTA's commuter rail system has been achieved through ensuring our core principles have been manifested in every facet of our operation. A) OPERATION OF PASSENGER RAIL SYSTEMS MBCR's operational experience, principles, and service objectives are demonstrated throughout each section of this document; however, the following is a description of our commitment to attaining high levels of on time performance ("OTP") and partnering with the MBTA to add new service to the system. OTP: 96.6% through May 2012 An on-time, reliable commuter rail system is what allows the MBTA to attract and retain riders. As outlined below, we have continually strived to exceed this contractual goal through management, infrastructure and equipment reliability initiatives. We have achieved the contractual OTP goal in six of eight years, with a current year contractual OTP of 96.6% through May 31, 2012. Throughout its service, MBCR has maintained a policy of OTP transparency through its "Clockwork" initiative. Believed to be a first for the passenger rail industry, MBCR has published actual and contractual OTPs each month for public inspection. B) MAINTENANCE OF RAIL INFRASTRUCTURE MBCR has a full-service department dedicated to the daily maintenance and improvement of the MBTA's rail infrastructure. This commitment is a crucial component of ensuring a safe, reliable system. The MBTA's infrastructure includes more than 290 miles of Right-of-Way controlled by the MBTA, over 485 track miles, 128 station platforms, 63 parking lots, 554 track switches, and 249 grade crossing warning devices. We are intimately familiar through hands-on experience with the infrastructure. This experience includes: 311,936 ties replaced; 71 miles of continuous welded rail installed; 130 grade crossings rehabilitated; 211,728 linear feet of drainage ditches reshaped; 249,353 scrap ties removed from the property; 30 interlocking event recorders installed; 32 grade crossing event recorders installed; 70 switch machines replaced; 95 signal poles replaced; 31,939 feet of fencing installed; 52 culverts replaced; and 90,718 plans converted to electronic media. We are proud of all of our rail infrastructure maintenance and present the following to demonstrate our successful experience: Concrete Tie Replacement: Response to manufacturer failure The Middleborough, Plymouth and Kingston Lines began to experience rapid failure of the concrete ties. MBCR undertook the replacement of concrete ties with wood ties in 2010. MBCR crews installed approximately 28,000 ties prior to the completion of a full tie replacement program by the MBTA. In 2011 and 2012, MBCR supported an MBTA contractor to replace all of the concrete ties on these lines.	

Improvements to Stations and Structures: Continuous rehabilitation

MBCR has developed and implemented a continuous station rehabilitation plan. All stations are inspected in the spring and a work plan is developed and prioritized. The work performed at each station includes replacing of timber edging, re-painting yellow lines, tactile repairs and replacement, seal coating, landscaping, canopy repairs, concrete repairs, pavement repairs, and lighting replacement. MBCR has also installed mini-high platforms at Melrose Highlands, Rockport and Waltham Stations through MBTA's capital investment.

Maintenance of the Northside's five drawbridges is crucial to continued reliable service. Three of the drawbridges are over 100 years old and are seeing increased activity. To combat disruption to service, MBCR installed electric generators at Gloucester and Saugus to allow for operation of the bridge in the event of a power loss. The MBTA installed a new hydraulic jacking system on the Beverly drawbridge to alleviate operational issues with the bridge. MBCR also established 20 hour per day coverage, 7 days a week by machinists and electricians to ensure the bridges remain functional.

C) MAINTENANCE OF ROLLING STOCK

The Mechanical Department's maintenance of the rolling stock provides safe, efficient and reliable revenue service for the commuting public. The rolling stock consists of the following: 81 revenue locomotives (comprised of five model series by three different manufacturers), 60 of which are required for weekday service; 410 passenger coaches; and a variety of non-revenue equipment that includes switcher locomotives, ballast cars, flat cars, side dump cars, gondola cars, snow plows, and mobile crane equipment.

Regular Maintenance: Looking to replace before failure

MBCR meets or exceeds prescribed intervals for regular maintenance based on FRA regulations, MBTA requirements, and OEM recommendations. The scheduled work provides for inspections and testing criteria to identify possible defects and replacement of consumable items and components. This maintains equipment reliability by allowing components to be replaced before a failure occurs on equipment operating in revenue service. All preventive maintenance work is accomplished and recorded on MBTA-approved work orders and entered into Maximus, an electronic maintenance management system installed by MBCR in 2003.

Outstanding Technical Expertise

MBCR has the necessary technical staff to provide engineering design, drawing, review and testing of components to ensure they meet all form, fit and function requirements before submitting them to the MBTA for approval. MBCR's purchasing practices ensure that materials and services conform to specified requirements and standards in order to maintain the equipment in a state of good repair. Due to equipment age, it is not uncommon for a part or assembly to become obsolete, making it unavailable in the market. MBCR's responses include re-engineering the part through a vendor or in-house; developing a replacement program complete with procedures and training; and updating the MBTA's OEM prints.

D) DISPATCHING OF COMMUTER RAIL SYSTEMS

MBCR's staff has gained significant experience dispatching the MBTA Commuter Rail System. This includes 283 scheduled trains Monday – Friday, 120 trains on Saturday, and 92 trains on Sunday on the Southside and 196 scheduled trains Monday – Friday and 70 trains on Saturday and Sunday on the Northside in addition to scheduled equipment moves to and from our maintenance facilities.

E) IMPLEMENTATION AND MANAGEMENT OF SUPERIOR SAFETY SYSTEMS

The safety of passengers, employees, and the general public has been our highest priority throughout our Contract term. As discussed below, we have done this by developing and adhering to our System Safety Program Plan ("SSPP"); implementing safety resources for our employees and the riding public.

System Safety Program Plan: Second lowest level of commuter rail injuries nationally

Since 2003, MBCR has operated in accordance with our SSPP that is based on our partner companies' corporate programs, industry standards, and governing legislation. The SSPP outlines a rigorous process for identifying and correcting hazards that may arise in the operation of the system and provides safety reviews of capital investments, changes in equipment, and operating practices. In 2009, upon completion of its triennial safety audit of commuter rail, the American Public Transportation Association ("APTA") recognized

MBCR as having "industry leading" practices in a number of areas, including a peer-based "safety liaison"

program jointly implemented with labor leaders. That Safety Plan and partnership with labor led, according to a recent Federal Railroad Administrative (FRA) statistic, to a 56% decline in reportable workplace injuries at MBCR, which last year ranked us second nationally in the passenger railroad industry for the lowest rate of workplace injuries.

Increasing Safety Resources for Employees

MBCR has implemented a number of innovative safety resources for our employees. These include: safety action plans for each department with specific goals and actions; committees within each department which identify safety incentives and improvements; an Interdepartmental Safety Committee which performs internal safety audits; a Chemical Assessment Safety Team to identify material hazards and proper handling practices; a "Safety Hotline" and "Safety Action Request Procedure" to enable employees to raise safety concerns anonymously; a "Safety Inspection Program" that identifies safety concerns and poor behavioral working practices; formal inspections twice a year and informal inspections monthly by the Safety Department; monthly Senior Management Field Safety Tours; and monthly Safety Review Meetings for all Operations department managers in coordination with the General Manager.

Safety Resources for Passengers: *Saving passenger lives*

In partnership with the MBTA, MBCR was the first commuter rail operator to install Automated External Defibrillators (AEDs) on every commuter rail train in Massachusetts. In 2009, a team of MBCR employees saved the life of a commuter in North Station, and in 2011, three MBCR managers used an AED to save a passenger who was in full cardiac arrest. Under its program, MBCR provides every Transportation Department employee training on safety related initiatives, including AED and CPR certification/recertification, and emergency procedures associated with AEDs.

F) MOBILIZATION/TRANSITION

MBCR successfully managed a seamless six-month mobilization between January and July 2003 after securing the initial contract award from the MBTA. This process featured the successful establishment of the first-ever Customer Service department for MBTA commuter rail as well as the creation of MBCR support departments, including Management Information Systems, Human Resources, and Finance and Accounting including Payroll, Accounting, Accounts Payables and Budget.

G) LABOR RELATIONS

MBCR has a very strong working relationship with the 14 labor unions represented on the Commuter Rail property. MBCR and the Labor Relations department have a policy and history of taking a proactive approach to hiring as well as labor concerns and issues. During the past nine years, MBCR has successfully negotiated labor agreements with all fourteen labor unions during two separate bargaining rounds.

MBCR has also worked collaboratively with labor on other joint programs which have resulted in increased training and improved productivity as well as reduced time claims and grievances. MBCR has negotiated "lock-in" agreements with several unions at the request of the MBTA to ensure continuity of the workforce on some Force Account projects. MBCR is also currently finalizing an Apprentice agreement with the Joint Council of Carmen to provide advancement opportunities and on-the-job training to Coach Cleaners wanting to progress into Carmen positions.

H) IMPROVING WORK-FORCE DIVERSITY AND DBE PARTICIPATION

Work-force diversity and DBE participation have been a top priority throughout the contract period. Our experience is set forth in detail in our Diversity section. The success of MBCR's efforts, however, is evident in the hiring statistics: between July 1, 2003 and March 30, 2012, MBCR increased its number of female employees by 50% and minority employees by 63%. Second, MBCR has been committed to supporting the MBTA's goals for DBE participation throughout the contract. Since 2003, MBCR has worked with approximately 75-80 DBEs procuring approximately \$48.4m from these firms.

I) COST SAVINGS TO OWNER

MBCR has worked hard to provide cost savings to the MBTA in many areas, most significantly related to prolonging the useful life of and optimizing service provided by an aging fleet. Specific projects related to fleet optimization are described below and in Section C. MBCR has maintained strict cost efficiencies which, based on the most recent government statistics available, find that MBTA commuter rail ranked 23rd out of 25 nationally in terms of Operating Expense Per Mile for major U.S. commuter rail systems (Source: National

Transit Database) with a 34 cents per customer-mile expense that compares favorably with other major networks such as the Long Island Railroad (57 cents per customer mile, 41.5% higher than MBTA) and SEPTA in the Philadelphia area (44 cents per customer mile, 22.8% higher than MBTA).

In 2009, MBCR launched a Wheel Truing Machine Program. This program increased the number of wheels trued in any given period, which led to an increased quantity of wheels year-over-year. This provided cost savings by reducing rail wear and increasing longevity; reducing wear of associated truck components; and extending wheel life.

Finally, capital projects are performed by MBCR employees at a significant savings to the MBTA as compared to outside contractor costs. These "Force Account" projects are described in Section P.

J) IMPROVING SERVICE QUALITY

Increased Service

MBCR has worked with the MBTA on a large number of service expansions throughout the contract. Beginning in February 2004, MBCR introduced express service on the Fitchburg Line, which reduced travel time by 17 minutes, and increased reliability. In October of 2008, MBCR provided expanded service to the Worcester/Framingham Line in the form of additional early-morning trains and reduced time gaps between trains.

In July 2006, MBCR expanded MBTA Commuter Rail service to Providence, Rhode Island, by extending existing weekday and weekend services that had terminated in Massachusetts. This expansion, in conjunction with the opening of a new layover facility in Pawtucket, Rhode Island, greatly increased service on the Commuter Rail system's busiest line.

In October 2006, MBCR introduced shuttle service to Anderson Station in Woburn, MA, which improved service performance, reduced travel time, and increased reliability for passengers on the Lowell Line. In October 2007, MBCR played an integral role in ensuring that the MBTA achieved a seamless integration of new service on the Greenbush Line. Most recently, MBCR worked with the MBTA to provide service to T.F. Green Airport in Warwick, Rhode Island, and new, extended service to Wickford Junction in North Kingstown, RI (on November 22, 2010 and April 23, 2012, respectively).

MBCR played an integral role in the re-opening of the 18-mile Braintree-to-Scituate Greenbush branch of the Old Colony line, which had been closed since June 30, 1959. This support included MBCR's trained signal personnel who provided the installation of key signal components and testing of the signal system prior to the initiation of commuter service.

Equipment and Infrastructure Initiatives – Examples

In 2003, the HVAC systems on the MBTA Commuter Rail passenger coach fleet were aging and in need of an upgrade. MBCR implemented an MBTA-funded, multi-year rebuild program which significantly improved the systems. Over the last five years, MBCR has replaced and/or rebuilt a total of 307 HVAC systems. To further enhance service quality, MBCR improved inspection and maintenance practices, conducted trend analyses, and developed and implemented continued HVAC performance improvement. This aggressive, comprehensive approach to HVAC Systems delivered strong results, with MBCR reporting a near-perfect record for air conditioned coaches in service in the 2011 Memorial Day – Labor Day season (99.97% in-service reliability rate; total of 16 customer complaints about air conditioning during season, the lowest number ever recorded). The MBCR mechanical team received a Performance Recognition Award from the MBTA for their outstanding performance.

In 2006, MBCR instituted a multi-faceted preventive program to reduce the impact of slippery rail conditions. Principal elements of the program included (1) a pre-season inspection of locomotive sander and wheel slide systems; (2) summer brush cutting to limit vegetation on the right-of-way (over 180 miles of right-of-way have been cut since July 2008); (3) a refresher instruction to Locomotive Engineers regarding train handling in adverse conditions; and (4) deployment of a power washer to spray off accumulation on tracks. These efforts in 2006 reduced slippery rail delays by 30% from 2005. Because of the success of the program, MBCR built a second rail sprayer in 2009 to allow for greater coverage on the Southside.

Investments for Better Service

Following the winter of 2011 and the significant impacts to service resulting from extreme weather and the

aged locomotives, MBCR and the MBTA invested in new equipment to mitigate the impact of snow storms on commuter rail service and improve recovery times following bad weather. These investments included the acquisition of heating gear to melt snow from coach and locomotive undercarriages; snow jets to clear snow drifts and built-up ice from tracks during and after a storm; and train cable protective coverings, which safeguard sensitive equipment that links locomotives and coaches together. In addition, MBCR assumed at its own expense on November 1, 2011, an expiring MBTA lease for five passenger train locomotives owned by railroad equipment manufacturer and lessor MotivePower, Inc. During their time in service, these MBCR-leased units ensured equipment availability through the winter and spring of 2011-2012, resulting in a direct, positive impact on the on-time performance of Commuter Rail trains.

K) IMPROVING RIDERSHIP VOLUME

Through its partnership with the MBTA, MBCR has collaborated to find ways to attract more passengers to the Commuter Rail system. These have included special trains, extra staffing, and improving schedule times.

Special Trains

Every year, MBCR staffs and runs a number of extra trains to provide additional service for special events such as the New England Patriots games and other sports, concerts, and other local events. MBCR works closely with the MBTA to provide safe and effective transportation while facilitating fare collection, customer communications, and crowd control when appropriate during these events.

In 2007, MBCR transformed a coach into a vehicle that provides racks for both bikes and skis. This initiative was supported by the MBCR customer service team that developed and maintained a marketing initiative to promote these trains. This has helped to ease the issues related to boarding and alighting with bicycles on the Rockport Line as well as increasing ridership during the spring and summer months.

Additional Staff

During service disruptions, planned outages, and special events, MBCR routinely deploys additional customer service staff members to improve and ensure the proper delivery of information to customers. This has resulted in major reductions of negative customer feedback at time of service disruptions.

Improving Schedules

MBCR has worked in partnership with the MBTA and other railroads to improve schedule times and service performance levels to meet customer expectations.

Promoting Cleanliness

MBCR places a premium on the cleanliness of all facilities and rolling stock. Clean facilities and equipment increase customer comfort leading to higher customer satisfaction. We accomplished this by enhancing our cleaning process for both passenger coaches and locomotives through an aggressive five-month campaign. Key elements of the program included hiring ten new employees; retrofitting a wash station in South Boston with pumps and pipes; redesigning a cleaning process to identify areas on coaches and locomotives that were previously not effectively cleaned by automated washing systems; and a renormalization of cleansing solution.

Improving Customer Communications

MBCR recognizes that accurate and timely communication is paramount to customer satisfaction and has implemented several initiatives. We redesigned schedule information for the MBTA in order to provide customers with clearer schedules and made them available in pocket format, on the web with printable PDF schedules, and in poster format at the 138 stations system-wide. Scheduling information in all formats is continually monitored, updated and improved, including the addition of mobile scan-able codes which lead directly to the MBTA's mobile site.

To further understand our customer concerns, in June 2009, MBCR rolled out an online customer survey to provide us with feedback reflecting the level of service we provide daily to our customers. Results are measured and reported on the MBCR website.

Strong Community Outreach

Since its inception, MBCR has been actively involved in giving back to our community through volunteer work and hosting events. The following are some of our highlights.

In 2010 and 2011, MBCR organized and hosted a North Pole Express Train to provide holiday cheer to over 700 local residents. Guest readers have included the First Lady of Massachusetts Diane Patrick, the First Lady of Boston Angela Menino, Secretary of Transportation Richard Davey, MBTA General Manager Jonathan Davis, and MBCR General Manager Hugh Kiley. During the winter holidays, MBCR also hosts Rosie's Place Craft Fair at South Station. It is the biggest grossing annual fund raiser for this organization for poor and homeless women.

In 2010 and 2011, MBCR staff members volunteered to serve Thanksgiving Dinner at Boston Rescue Mission to families in need. The Rescue Mission is committed to offering resources that prevent and end homelessness and to support the recovery, health and independence of those who have a history of substance abuse, incarceration and homelessness.

In 2012, MBCR had the Gold Star Memorial Train Coach event to honor the fallen heroes of Operation Iraqi Freedom and Operation Enduring Freedom.

M) INNOVATION AND TECHNOLOGY

MBCR's Information Technology Department is comprised of a highly trained staff with significant experience in deploying, developing, implementing and designing information technology infrastructure enhancements. During our tenure, MBCR oversaw the design and development of Train Resource Management System II ("TRMS") an operations management software tool to replace an older, legacy system called ROSS. In preparation, MBCR worked with MBTA staff and approved specifications and solicited contractor bids. MBCR managed the contractor who developed the software and supported the implementation of the system, including user training.

N) TRAINING AND EMPLOYEE DEVELOPMENT

The face of MBCR is the frontline staff: the conductors, assistant conductors and ticket agents. The Customer Service Department designed and delivered training programs to optimize every contact MBCR has with every customer. These training programs include customer service skills, providing service to customers with disabilities, proper collection of fares, skills for dealing with difficult customers, effective report writing skills, and security and terrorism awareness training. Once delivered, managers and spotters ride with crews and monitor the customer interactions with ticket agents to measure the success of the programs.

The MBCR team has also assisted with the development and delivery of the MassDOT "How Can I Help You Today" training program, which included many modules designed by MBCR's customer service team.

MBCR has trained and integrated 59 Locomotive Engineers and 179 Assistant Conductors since 2003. Over the past six years, MBCR has graduated five groups of engineers who earned Class 1 Passenger Engineers certification. The rigorous, year-long certification program features 10 weeks of classroom training on range of subject matter, including federal law, railroad operating rules, and diesel engine theory. It also requires extensive field training by student engineers for the better part of a year.

O) JOINT/SHARED OPERATIONS WITH OTHER COMMUTER AND PASSENGER RAILROADS

MBCR has acquired significant experience in shared operations with other railroads. The MBTA Commuter Rail System is a combination of rail lines operated by MBCR, Pan Am Railways, Amtrak and CSX. Close cooperation and coordination is necessary between all the parties, and MBCR has been dedicated to optimizing this daily partnership.

The Grand Junction is a piece of track that connects the north and the south side of Boston, traveling from Somerville to Brighton. When the State acquired the Grand Junction segment from CSX, the line was in significant disrepair. With extremely short notice, within a few months, MBCR redirected crews and the MBTA redirected contractual requirements from other areas to this line in order to upgrade the line to a good condition by installing new ties, rail and stone ballast to allow for improved drainage.

P) CAPITAL IMPROVEMENT

The MBTA has regularly directed MBCR to perform capital improvement work that is above and beyond the base scope of the Operating Agreement. MBCR accomplishes this through Force Account Work as provided in the Contract. Since 2003, MBCR has had significant experience in Force Account Work, including projects enabled by the American Recovery and Reinvestment Act of 2009 (ARRA). These Force Account Projects provide the MBTA with vital, cost-effective oversight and operations of vehicle, facility and system upgrades

station and right of way improvements, and support for MBTA and MHD projects.

The rehabilitation of the Fairmount Line has revitalized an underutilized line through one of Boston's most crowded neighborhoods. The rehabilitation projects began in 2004 and are still ongoing. The projects included rebuilding three of the existing stations, construction of four new stations, replacement of bridges, installation of a new interlocking, and installation of a new signal system.

Work has begun on the Fitchburg Commuter Rail Line Improvement Project, another ARRA funded project, which will modernize the 50-mile corridor, allow 79 mile per hour speeds, install approximately eight miles of double track, a new signal system and new interlockings. ARRA funding has also allowed double-tracking along the Haverhill line, which will allow increased capacity and reduce delays.

In Medford, on the Lowell Line, there is a mile-long area with a large hill adjacent to the tracks that caused water drainage concerns for a number of years. In 2008, a project was undertaken to install a new drainage system to alleviate the drainage problems during any rain events. The system was tested by over twenty inches of rain in March of 2010 and there were no flooding problems in this area.

The Merrimack River Bridge, on the Haverhill Line in Haverhill, is the longest bridge on the system. MBCR undertook a significant capital project to replace approximately 1,600 bridge timbers and install new fasteners to tie the timbers to the bridge structure. Due to important safety steps undertaken by the MBTA and MBCR, such as a fall arrest system and a netting system that was constructed to catch any loose material, there were no safety issues or injuries.

Equipment modernization and improvement modifications have been carried out throughout the nine years of the contract. These include the Truck/Coupler/HVAC System Overhaul Program for single level Coaches, which began in 2006. This Program was initiated by the MBTA and has allowed the completion of truck and coupler work on 117 single level coaches and restored HVAC systems on 267 out of 268 single level coaches. In 2009, Wi-Fi installation on all blind coaches except the 500 and 900 Series was achieved and PTIS was installed on all Control Coaches. This Program was requested by the MBTA and enhanced passenger convenience through connectivity to the internet while traveling on commuter rail coaches and enabling access to real time scheduling updates at platforms. Both projects were completed under budget and on time.

Name of Client (Owner/Agency or Contractor): Massachusetts Bay Transportation Authority (MBTA)	
Address:	Department of Railroad Operations 45 High St. Boston, MA 02112
Contract Name: Mr. Steven C. Mudge	Telephone: 617-222-3434
Owner's Contract No: N/A	E-mail: smudge@mbta.com
Contract Value (US\$):	\$287,299,452 (Annual Fixed Price as invoiced on July 10, 2012)

FORM E-1

PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Alternate Concepts, Inc. (ACI)
Years of Experience:	16 Years total ; 7 years as O&M
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Tren Urbano—San Juan, Puerto Rico ACI operates and maintains, under contract to the Puerto Rico Highway and Transportation Authority, the Tren Urbano System which serves the 1.3 million residents of the San Juan metropolitan area and, as the only rail system on the island, is a critical element in developing the local transportation network. The 10.6 mile system has 16 stations and a fleet of 74 vehicles. ACI was a partner in the Siemens Transit Team consortium established to deliver Tren Urbano under a DBOM (design-build-operate-maintain) contract. Throughout the design process, ACI reviewed and commented on all specifications, designs and plans to integrate operations and maintenance (O&M) concerns. ACI's participation in the design phase resulted in the avoidance of rework, work-around or life-long inefficiencies, as well as improvements in the vehicle amenities for operators and passengers. At the end of the construction phase, ACI assumed full responsibility for all O&M functions, beginning June 6, 2005. ACI provides 226 week- day trips and 182 trips on both Saturday and Sunday. ACI operates at over 99% percent on-time and completed over 99% percent of scheduled trips and carries over 40,000 daily on weekdays. ACI's responsibilities for Tren Urbano are all-encompassing, including: dispatching and operating trains; maintaining and cleaning all vehicles, fixed facilities, automated systems, track and right-of-way; safety and security of a highly-urbanized system across all property; assisting customers in the stations and over the telephone from a customer service center; and collecting and processing revenue with a highly technological fare system; and hiring and training all staff. In order to gain the required human resources, skills and knowledge to support the contract's goals and create a sustainable system through the employment of local labor, ACI developed and implemented a technology transfer model comprised of: a university program with MIT and the University of Puerto Rico; paid internships specializing in engineering, IT, planning and management; and an employee mentorship. Our program is highly successful – our employees are over 99% native Puerto Rican and, with the exception of the General Manager's position, all key management positions are staffed with Puerto Rican residents as well.	
Name of Client (Owner/Agency or Contractor):	Puerto Rico Highway & Transportation Authority
Address:	398 Jesus T. Piñero Avenue, San Juan, Puerto Rico, 00918
Contact Name: Maria Elena Cristy	Telephone: 787.503.3303
Owner's Contract No: 500006	E-mail: mecristy@dtop.gov.pr
Contract Value (US\$):	\$509 million

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Bombardier Transportation Canada
Years of Experience:	16 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: GO Transit Commuter Rail System—Toronto, ON Canada In 1996, GO Transit selected Bombardier as the prime contractor to maintain their Toronto fleet and received a contract extension in 2002. In 2007, Bombardier was selected to manage operations and maintenance for five years, starting in July 2008 with extension options. Bombardier supplies management; labor and material; manages train movements in the yard; and maintains 526 Bombardier-built Bi Level Coaches and 65 MPI diesel Locomotives. The fleet is serviced at GO Transits main maintenance facility and several outposts. Bombardier has achieved 99.6% On Time Performance and is currently 3 plus + years without a lost time accident. Bombardier provides operations and maintenance of 187 daily trains using 44 train sets. Bombardier has maintained and continued with Go Transits growth since 1996. During this time Bombardier is proud of many achievements during this period which include: ridership growth from 26 million to 57 million passengers ; \$8.2 million in savings for GO Transit; decreased costs and increased revenues for GO with our resources and innovations, such as leasing shop space to perform work on third party equipment, performed BiLevel in house A/C overhauls at lower cost and reimbursed GO for use of the floor space and handled scrap metal disposal previously done by GO Transit. Bombardier has developed a close working relationship with GO Transit, participating in shared activities such as; Rail Safety day for Students, Summer Family days and open houses, rail accident simulations and emergency drills for first responder training and familiarization. OPS Contract Number: 10953AM/AMSER, contract value \$160.579M USD MOE Contract Number: 10954AM/AMSER, contract value \$126.707M USD.	
Name of Client (Owner/Agency or Contractor):	GO Transit - Division of Metrolinx
Address:	20 Bay Street, Suite 600, Toronto, Ontario, Canada M5J 2W3
Contact Name: Greg Percy, VP Operations	Telephone: 416.869.3600
Owner's Contract No: 10953AM/AMSER	E-mail: Greg.Percy@gotransit.com
Contract Value (US\$):	\$160.579 million/ \$126.707 million

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Bombardier Transportation Canada
Years of Experience:	14 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Southern California Regional Rail Authority—Los Angeles, California In 1998, SCRRA—the 7th largest commuter railroad based on annual ridership—awarded Bombardier a three year contract to maintain a fleet comprised of 190 Bombardier and Rotem built BiLevel railcars, 52 locomotives, and work train vehicles, all under FRA regulations. Since 1998, Bombardier has received numerous contract extensions and remains the current maintenance of equipment (MOE) provider. During this contract, Bombardier developed training programs and lesson plans based on new CFR Title 49, Passenger Equipment Safety Standards Parts 238 & 229, and provided Qualified Maintenance Persons training and certification under the same rules. A Quality Control Program was introduced to measure compliance with the MOE contract requirements and Bombardier attained ISO 9001:2000 certification. Achievements include a HEP replacement program aimed at fleet upgrading, standardization and low emission compliance. This included all modifications to adapt new engines to various locomotive car body configurations. Bombardier has also implemented electrical modifications on all new locomotives to ensure train line circuitry complies with existing equipment; development and implementation of procedures for installation and modifications of Automatic Train Stop equipment on cab cars; and management of subcontracted capital expenditure programs.	
Name of Client (Owner/Agency or Contractor): SCRRA - Metrolink Address: One Gateway Plaza – 12th Floor, Los Angeles, CA 90012 Contact Name: Ron Svoboda Telephone: 213 224 3481 Owner's Contract No: OP120-103 E-mail: svobodar@scrta.net Contract Value (US\$): \$178 million	

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Bombardier Transportation Canada
Years of Experience:	5 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: South Florida Regional Transportation Authority—Miami, FL In 2007, Bombardier received a 7 year contract, plus options, for Maintenance of Equipment and Facility maintenance, which includes the primary facility and outlying point West Palm Beach. Bombardier maintains the SFRTA fleet of 30 Bombardier and Rotem built BiLevels, 14 locomotives and 6 Colorado Rail Car DMU's. Under FRA regulations, Bombardier has provided Qualified Maintenance Person training and certification of maintenance staff including the interviewing and hiring of all staff; developed a detailed mobilization plan and implemented it in under 6 months; implemented the Maximo MMIS system; provides inventory acquisition and management for the entire fleet; and performed minor overhauls on coaches, cabs and locomotives. Bombardier developed and implemented maintenance and site-specific System Safety Plans and is currently 5 plus years without a lost time accident. Bombardier also recently provided the experience, resources, and materials to complete, commission, test and accept a Colorado Rail Car DMU never placed in service or finished by the manufacturer. Bombardier is now also responsible for maintenance of the Colorado DMU Rail cars.	
Name of Client (Owner/Agency or Contractor): SFRTA Address: 800 NW 33rd St. Suite 100, Pompano Beach, FL 33064 Contact Name: Brad Barkman, Director OPS Telephone: 954.788.7946 Owner's Contract No: 10505AM/AMSERV E-mail: barkmanb@sfrrta.fl.gov Contract Value (US\$): \$92.881 million	

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	5.5 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Veolia Transport Limburg—Limburg Province, The Netherlands Veolia operates commuter train operations in the Province of Limburg as a part of a larger contract to provide comprehensive, multi-modal, urban and regional transportation throughout the Province. In the operations of the passenger rail, Veolia transports 28,000 daily riders over two lines (33km and 84km) serving 28 stations. The passenger rail operation utilizes 16 DMU train sets, and 8 EMU trains. Veolia's scope of services for the rail sector of the contract consists of Train Operations, Train Dispatching, Equipment Maintenance, Ticketing, and Customer Service. Veolia successfully mobilized and assumed operations from the Dutch National Railway in 2006 and has increased ridership by 24% from 8.2 million to 10.2 million today. Veolia gained cooperation from transition rail and bus agreements into a single, multi-modal agreement creating labor efficiencies and greater flexibility. Veolia created cost savings for the owning Agency by offering more services for less cost than their predecessors. Veolia invested in efficiencies and innovation for this project with the introduction of new low floor rail vehicles, a completely new ticketing system for the intermodal market, new passenger information systems, a centralized traffic control center for trains, buses, and taxi operations, and EMU trains that reuse the energy generated by braking. Furthermore, Veolia invested heavily in training employees to be cross functional between train and bus operations and stressed customer service training, utilizing Veolia's proprietary world-wide training program. Over the past five years, Veolia has also invested to increase the capacity of the DMU trains by lengthening two car sets into three car sets with the insertion of an intermediate coach.	
Name of Client (Owner/Agency or Contractor): Province of Limburg Address: Postbus 5700, 6202 MA- Maastricht – The Netherlands Contact Name: Mr. Franc Span Telephone: +31 433897546 Owner's Contract No: N/A E-mail: fwm.span@prvlimburg.nl Contract Value (US\$): \$ 40m (annually for 10 years 2006-2016)	

FORM E-1

PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	3.5 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
SCRRA Track & Structures Contract—Los Angeles, CA Veolia is contracted to Metrolink in Los Angeles, CA for Maintenance of Way services covering track and structures. That contract runs from 2009-2014 (plus a four-year option to renew). Veolia performs the track and structures maintenance on 12 subdivisions that are also jointly used by the BNSF and Union Pacific railroads that range from Class 2 to Class 5 standards. The majority of the track is Class 4 and 5. There is a diversity of track structures and various types of rails and ties on the system. Our in-house staff also performs all structure inspections, maintenance and repairs to the bridges and other structures throughout the system. Veolia utilizes an automated track inspection system, which it procured and installed upon assuming the contract. Veolia successfully mobilized and assumed the maintenance operations from a predecessor contractor, and has established an exceptional safety record during its contract tenure. Veolia also organizes, coordinates and supports capital construction projects, and operates the work trains to support all preventative and reactive maintenance as well as its own and third-party capital construction activities. Veolia also bids on and performs Capital Improvement work through the Agency's Job-Order-Contracts. Metrolink operates 144 trains each weekday serving 53 stations over 388 route miles (plus a further 124 route miles shared with and maintained by other operators).	
Name of Client (Owner/Agency or Contractor): Southern California Reg. Rail Authority (SCRRA)	
Address:	700 S. Flower St. 26th Floor, Los Angeles, CA 90017
Contact Name: Ms. McNeil-Kakaris	Telephone: (213) 452-0237
Owner's Contract No: MS214-09	E-mail: mcneill@scrra.net
Contract Value (US\$):	\$96 million

FORM E-1

PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	7 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: NOB – Marschbahn (Nord-Ostsee-Bahn, Netz West) <i>Germany – West Coast of Schleswig Holstein</i> Veolia Verkehr, subsidiary of Veolia Transdev, operates the commuter rail system, which is 238 km long and consists of two lines, serving 19 stations and carrying 28,000 riders per day (10.2 million passengers a year; 4.2 m train km/year). Veolia utilizes 170 employees, 18 locomotives, 110 passenger coaches and 4 DMU train sets to provide the service. Veolia's scope includes train operations, train dispatching, and equipment maintenance. Veolia manages joint ticketing with other rail service and customer service. Veolia successfully mobilized the new service from DB (Deutsche Bahn, National German Railway Company) in 2005. Veolia performs maintenance of rolling stock, dispatching of commuter rail systems, and the implementation and management of superior safety programs. Veolia also enjoys positive relations with the two labor unions that cover the employees, and has developed training programs as well. Veolia improved customer satisfaction with a "one stop shop" (customer contact center) for mobility, operating 24 hours a day and 7 days a week, managing customer information (fares and timetables), ticket sales (individual and group), complaints and fines. This effort also established standards and service level agreements in response time, lost calls, and volumes handled which ultimately resulted in a 95% call response rate. Veolia has invested in innovation improvements such as automated passenger counters in the coaches, and the installation of ECOTRAINBOOK system, bringing fuel consumption down 8% with a corresponding impact on cost (see E2 : ECOTRAINBOOK innovation).	
Name of Client (Owner/Agency or Contractor): LVS Schleswig - Holstein (LandesweiteVerkehrsservicegesellschaftmbH) Address: Raiffeisenstraße 1, 24103 Kiel, Germany Contact Name: Andreas Gessler Telephone: +49 431 660 19 0 Owner's Contract No: N/A E-mail: a.gessler@lvs-sh.de Contract Value (US\$): \$ 90m (annually for 10 years 2005-2015)	

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	6 Years, (4.25 years of revenue operations)
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Sprinter DMU Commuter Service – San Diego County, California. Veolia Transportation was contracted for the Operations, Dispatch & Vehicle Maintenance of the Sprinter DMU Commuter Rail System in North San Diego County, California. The commuter operation serves 15 stations on its 22-mile route between Escondido and Oceanside, utilizing 12 Siemens Desiro Diesel Multiple Units to operate 455 weekly trains. The contract requires complying with NCTD's System Safety/Security Program Plans, incident/accident investigations and maintaining a Test and Observations Program acceptable to NCTD, CPUC, and FRA. Veolia was responsible for the successful testing and start-up of the new rail system and equipment, which included the hiring, training, and qualification of employees to safely operate the new system, commission and maintain the first Siemen's DMUs in the United States, and establish a new train dispatching office for the operations of the commuter and freight service utilizing the new line. Veolia's scope includes Train Operations, Train Dispatching (through July 2011), and Vehicle Maintenance (which is provided through our subcontractor partner Bombardier). Veolia has maintained an OTP rate of over 99% for the duration of the contract, and has recently had its contract extended two additional years by NCTD.	
Name of Client (Owner/Agency or Contractor): North County Transit District	
Address:	810 Mission Ave, Oceanside CA 92054
Contact Name: Nick Freeman	Telephone: 760 966-6682
Owner's Contract No: 05026	E-mail: NFreeman@nctd.org
Contract Value (US\$):	\$31 million

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	5 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: TriRail Commuter Operations—Miami, Florida Veolia Transportation operates the TriRail commuter rail service in the greater Miami Area for the three county South Florida Rail Transit Authority (SFRTA). Veolia's scope consists of operations of commuter rail service on the 72-mile state-owned South Florida Rail Corridor. The service includes 50 trains a day Monday through Friday and 16 trains a day on both Saturday and Sunday. Veolia is working with the agency to double weekend service. Veolia's responsibilities for the TriRail service include staffing and operations of the commuter trains, monitoring the service and providing customer information through the TriRail Operations Center, and the provision of on-site Customer Service Ambassadors to provide assistance and information at stations located along the corridor, which is jointly used by TriRail, Amtrak, and CSX. Daily coordination is required with Bombardier, the contract equipment maintainer, for availability and equipment maintenance issues. The operation is conducted under CFR 49, and FRA rules and guidelines, and the contract requires compliance with elements of SFRTA's System Safety Program Plan, System Security Program Plan, incident/accident investigation protocols, and the maintenance of a complaint Test and Observations Program acceptable to SFRTA and FRA.	
Name of Client (Owner/Agency or Contractor): SFRTA Address: 800 N.W. 33rd Street, Pompano Beach, FL 33064 Contact Name: Bradley Barkman Telephone: 954-788-7946 Owner's Contract No: 06-113 E-mail: barkmanb@sfrta.fl.gov Contract Value (US\$): \$97 million	

FORM E-1

PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	8 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Veolia Transport Auckland Ltd. –Auckland, New Zealand Veolia operates the Auckland passenger rail network consisting of four separate lines totaling 96km in length. The rail network carries approximately 30,000 riders daily. Veolia's scope of services includes Train Operations, Train Dispatching, Ticketing, and Customer Service functions. Veolia employs 450 for this service primarily due to the manual ticketing system in place. Veolia is working in a technical support role to Auckland transport in the implementation of a "Smartcard" system to replace the antiquated manual ticketing, and in the conversion from the aging diesel operation to a new electric traction system. Veolia has maintained cleanliness and punctuality of trains in spite of the aging equipment. Veolia has implemented its proprietary training program emphasizing customer service, and implemented timetable improvements with great success. Patronage has significantly increased over the tenure of the contract, rising from 2.4 million in 2004 to 10.9 million last year. Veolia employs a diverse workforce in Auckland, including Maori, Indian, and Pacific Islander. Veolia has enjoyed positive labor relations and has had no negative labor actions during the term of the contract.	
Name of Client (Owner/Agency or Contractor): Auckland Transport	
Address:	6 Henderson Valley Road, Henderson, Auckland 0612 Private Bag 92250 Auckland 1142
Contact Name: David Warburton	Telephone: +64 9 366 2000
Owner's Contract No: N/A	E-mail: david.warburton@aucklandtransport.govt.nz
Contract Value (US\$):	\$35m annually

FORM E-1
PAST EXPERIENCE DESCRIPTION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	10 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Connex Melbourne Pty Ltd. –Melbourne, Australia The commuter operation had 320,000 riders per day, on 15 separate lines and served 211 stations and operated 311 three car EMU train sets. Connex's scope was "Turn-Key" and included Train Operations, Train Dispatching, Equipment Maintenance, Signal & Communications, Track & Structures, Ticketing and Customer Service. Connex employed over 2,300 employees for the service. Connex successfully mobilized and assumed half the network in 1999 and then had to quickly assume the remaining operations when the existing operator failed. Ridership grew dramatically under Connex's management with annual ridership growing more than 100 million during Connex's tenure. Connex maintained four types of rolling stock and introduced a new model to the fleet (Alstom X'trapolis EMU's) to improve reliability of the troublesome fleet. Connex enjoyed positive labor harmony and went the entire 10 years without any labor disputes. Connex dispatched all lines and managed the interface with region passenger and intercity freight operations. Veolia entered into a joint Venture with Victoria University to create training for rail employees, which was also used to train the regions LRT and bus operators. Veolia managed \$300 million in capital investment into the system from 2005 to 2009, and improved upon the safety record of the previous contractor, and improved diversity among its work force. Connex trained the first female train driver on the network.	
Name of Client (Owner/Agency or Contractor): Department Transport Address: GPO Box 2797 Melbourne VIC 3001, Australia Contact Name: Jim Betts Telephone: +613 9655 6142 Owner's Contract No: N/A E-mail: Jim.betts@transport.vic.gov.au Contract Value (US\$): \$800 million annually	

FORM E-2

INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation, Alternate Concepts and Bombardier Transit Corp.		
Years of Experience:	6 Years		
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Amended and Restated Operating Agreement Between Massachusetts Bay Transportation Authority and Massachusetts Bay Commuter Railroad Company, LLC – Massachusetts and Rhode Island Customer Service <i>"PARATURE"- dedicated innovative complaint management IT system and other Customer Relationship management</i> MBCR's investment in "PARATURE", a web-based customer service software, has provided the MBTA with a real-time view of all customer correspondence, investigation, history and customer responses. At no cost to the MBTA, MBCR has increased the scope of correspondence management, adding "Write to the Top" and "Feedback" that had previously been managed by the MBTA. In October 2006, MBTA Railroad Operations requested that MBCR send responses to customers directly rather than drafting them for MBTA approval. Since that time, MBCR has consistently achieved our internal goal of responding to all customer comments within 5 business days. MBCR has worked diligently with the MBTA to communicate detailed information to customers regarding unique conditions inherent within the MBTA commuter rail system that affect operations and reliability. For instance, we use RailMail, an email notification system, to alert those customers who have signed up about important events such as track outages and changes in the schedule. This database now communicates to over 17,000 regular customers. We also have a dedicated Twitter account (@MBCR_info) for day-to-day communications and have recently assumed responsibility for the MBTA's T-Alerts system for commuter rail, which has resulted in ridership acquiring faster notifications of delays. In 2006, MBCR became the first commuter rail company in the nation to introduce the Meet the Managers program and, to date, more than 50 sessions have been conducted. This popular program brings senior management to the commuter rail stations at least twice annually to meet face-to-face with customers to hear their concerns and respond to questions. This forum provides our team with a valuable channel to identify areas of improvement to enhance our customers' traveling experiences. This program was so successful that the MBTA adopted it in 2010.			
Name of Client (Owner/Agency or Contractor): Massachusetts Bay Transportation Authority (MBTA)			
Address:	Department of Railroad Operations 45 High St. Boston, MA 02112		
Contact Name: Mr. Steven C. Mudge	Telephone:	617-222-3434	
Owner's Contract No: N/A	E-mail:	smudge@mbta.com	
Contract Value (US\$):	\$287,299,452 (Annual Fixed Price as invoiced on July 10, 2012)		

FORM E-2
INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation, Alternate Concepts and Bombardier Transit Corp.
Years of Experience:	1 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Amended and Restated Operating Agreement Between Massachusetts Bay Transportation Authority and Massachusetts Bay Commuter Railroad Company, LLC – Massachusetts and Rhode Island TRUCK SHOP In September 2011, an upgraded and dedicated commuter rail “Truck Shop” was implemented at the MBTA’s Boston Engine Terminal facility in Somerville, MA. The shop is used to repair wheel chassis structures underneath the coach cars to restore the safety, ride quality and comfort to the commuting public and represents a significant, direct investment by the MBTA. Using industry-proven assembly processes, the MBTA and MBCR partnered in creating a work station capable of a higher level of production through enhanced physical capabilities, process improvements, dedicated management and craft personnel, and better equipment and tools. New equipment includes two new 10-ton cranes, specialized lifts, upgraded welding equipment, and a well-equipped specialized tool room. The dedicated truckshop enables MBCR’s Mechanical Department to dramatically improve productivity and considerably reduce the amount of time a coach spends in the repair shop, thus increasing coach availability. The implementation was supported by training Truck Shop personnel in newly formalized truck inspection and repair procedures and record-keeping, allowing the Mechanical Department to collect more extensive measurements for trending and root-cause analysis. More complete parts tracking procedures enables the Mechanical Department to work more closely with parts vendors and Stores to ensure appropriate Truck Shop inventories are maintained. New equipment that was implemented for truck overhaul work included: smoke filtering systems to protect welders and coworkers from dangerous fumes; a plasma cutter to cleanly remove worn truck pedestal liners; an axle work station to weld new pedestal wear plates onto journal bearing boxes; a heavy duty drill press and tooling to remove hot journal smoke indicators on Kawasaki Axles; welding benches for fabrication of truck bracketry; and a bench grinder for deburring and support welding processes. MBCR introduced key manufacturing processes to enhance reliability and consistency within the truck overhaul scope of work.	
Name of Client (Owner/Agency or Contractor): Massachusetts Bay Transportation Authority (MBTA) Address: Department of Railroad Operations 45 High St. Boston, MA 02112 Contact Name: Mr. Steven C. Mudge Telephone: 617-222-3434 Owner’s Contract No: N/A E-mail: smudge@mbta.com Contract Value (US\$): \$287,299,452 (Annual Fixed Price as invoiced on July 10, 2012)	

FORM E-2
INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Alternate Concepts, Inc. (ACI)
Years of Experience:	2 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: Eagle P3—Denver, Colorado <i>P3 Pilot Program focused on long term investment and financing</i> ACI is a member of the Denver Transit Partners (DTP), which is the consortium under contract with the Regional Transportation District (RTD) in Denver, CO, to design and construct two complete commuter rail lines, a CRMF and an electrified segment of the Northwest Rail Line, as well as to provide and maintain rail vehicles, and operate and maintain the two lines for rail service for 29 years. This project is the first one hundred percent (100%) Public Private Partnership (P3) project to be procured successfully in the United States and is a Federal Transit Administration (FTA) P3Pilot Program (Penta-P). Using multi-source financing from the private sector (\$486 million), local dedicated sales tax, and federal funding (\$1.03 billion Full Funding Grant Agreement), this Design, Build, Finance, Operate and Maintain (DBFOM) project is delivered and operated under a concession agreement in which all aspects of the project are covered under a single contract between DTP and the RTD. This P3 allows for RTD to retain ownership of all assets; control the revenues, fare policy and structure of the operating plan; and control the key performance criteria while shifting much of the financial risk to the DTP consortium—as the team is wholly owned by the entities providing the private equity. Being a long term contract with equity partner leadership, this shifted the focus toward the long-term in providing a service that is efficient in capital costs (including life-cycles) and reliable in day-to-day availability. Using established metrics as performance criteria that will determine availability payments freed the agency from exhaustive specifications and allowed DTP design flexibility in consideration of operability, maintainability and cost effectiveness for the system. Coupled with the long-term contract and private investment, this shifts the burden and risk of higher construction and maintenance costs to DTP instead of RTD. The design flexibility also allowed DTP to submit a proposal approximately \$300 million dollars lower than RTD's budget estimate through efficiencies. Project Finance Magazine awarded DTP its 2010 Transportation Deal of the Year Award for its work in reaching financial close on the Eagle P3 Project.	
Name of Client (Owner/Agency or Contractor): Regional Transportation District Address: 1600 Blake Street, Denver, Colorado 80202 Contact Name: Phillip Washington Telephone: 303-299-2414 Owner's Contract No: 18FH012 E-mail: phil.washington@RTD-Denver.com Contract Value (US\$): \$7.137 billion (Estimated Concession Value)	

FORM E-2
INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Bombardier Mass Transit Inc
Years of Experience:	5 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
SFRTA Tri-Rail—Miami, Florida <i>Innovative automated fuel tracking system</i> At SFRTA Tri-Rail in Miami Florida, an innovative approach to fuel monitoring was undertaken with the Customer and Bombardier. Bombardier developed an automated fuel tracking system that was linked to the Maximo Management Information System. The system allows automated tracking of fuel Dispersal, Usage, Consumption and creates mileage calculations, all completed automatically in the Maximo system. The results provided by this innovation have produced efficiency through automation versus manual database entry, accurate accounting of fuel costs and ordering, understanding seasonal fuel fluctuations, Peak vs. Off Peak mileage differences, account load factors, and the ability for the Customer to access information at any time due to Maximo's web based technology. The provided fuel information has given an additional benefit in statistical analysis when looking at the various statistics. For example, this information will allow monitoring optimal engine performance whereby a unit with higher fuel use may indicate a wear problem that requires attention and can be scheduled for maintenance.	
Name of Client (Owner/Agency or Contractor): SFRTA	
Address:	800 NW 33rd St. Suite 100, Pompano Beach, FL 33064
Contact Name: Brad Barkman, Director OPS	Telephone: 954.788.7946
Owner's Contract No: 10505AM/AMSERV	E-mail: barkmanb@sfrta.fl.gov
Contract Value (US\$):	\$92.881 million

FORM E-2
INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Bombardier Transportation
Years of Experience:	16 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Go Transit—Toronto, Canada <i>"Service Delivery Supervisor (SDS)", innovative response to revenue service trains disruptions</i> To improve the response to revenue service trains disruptions, a new position called Service Delivery Supervisor (SDS), was created in October 2011. This position oversees the on board locomotive health monitoring system called Intelli Train, as well as responding to equipment issues reported by the Train Crews and other sources through radio or phone communications. Intelli Train is monitored by the SDS while in service or during maintenance cycles, looking for potential failures, as well as any fault that has been logged into the computer. Once a failure or disruption occurs the SDS, through radio communication, can direct the Operating Crew or Technician responding to the incident to complete tests or affect repairs using schematics, technical information, and lessons learned from similar failures to mitigate the delay. This position has found several potential system failures while trains were parked prior going into revenue service, saving a revenue service failure. The innovation has increased On Time performance from 99.5% in 2011 to 99.6% year to date in 2012.	
Name of Client (Owner/Agency or Contractor): GO Transit - Division of Metrolinx	
Address:	20 Bay Street, Suite 600, Toronto, Ontario, Canada M5J 2W3
Contact Name: Mr. Greg Percy, VP Operation	Telephone: 416.869.3600
Owner's Contract No: 10954AM/AMSER	E-mail: Greg.Percy@gotransit.com
Contract Value (US\$):	\$126.707 million

FORM E-2

INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Bombardier Transportation
Years of Experience:	12 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Virgin Trains – Staffordshire, United Kingdom <i>“World Class Operations and Maintenance” (WCO&M), innovative practice and organization for fleet reliability improvement</i> In response to challenges encountered with maintaining two large fleets of Voyager intercity passenger trains at our Central Rivers Maintenance Facility in Staffordshire, United Kingdom, Bombardier developed a new methodology of delivering Operations and Maintenance (O&M) services known as “World Class Operations and Maintenance” (WCO&M). The innovation was proposed to improve fleet availability & reliability, continued focus on safety, and improved customer service. Our intent was to create a systemic approach to O&M by harnessing and integrating worldwide best practices in processes, procedures, technologies, and people engagement to ensure optimal operation and financial performance. After four plus years, the WCO&M Program has proven to be one of the most advanced concepts employed by any service provider worldwide. The results include the following: 3+ Years no lost time injuries (300 people); 400% fleet reliability improvement; 10% increase in fleet Utilization; 20% manpower reductions; and 25% reduction in material costs. In 2011, Bombardier has started implementing WCO&M at various North American sites.	
Name of Client (Owner/Agency or Contractor): Virgin Trains	
Address:	85 Smallbrook Queensway, Birmingham Midlands West Midlands B5 4HA United Kingdom
Contact Name: Phil Bearpark	Telephone: +447767643511
Owner’s Contract No: 24565SV	E-mail: Phil.bearpark@virgintrains.com
Contract Value (US\$):	\$220 million

FORM E-2
INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	3.5 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Track and Structure, Metrolink Commuter Rail—Los Angeles, CA <i>Electronic reporting system & data management for track & structure maintenance</i> In January 2009, Veolia Transportation's Infrastructure subsidiary VTMI assumed all the Track and Structure maintenance for the 388-mile Metrolink Commuter Rail System in Los Angeles. An innovation that Veolia proposed to the Agency was the conversion from a paper inspection reporting system to an electronic reporting system and data management. With capital support from the Agency, Veolia began selection and procurement of the system during the mobilization period in 2008. The Zeta Tech "Track Inspect" system was chosen, and Veolia procured, tested, and successfully installed the system. Currently, the system is used for electronic reporting of Track, Switch, and Tie Inspections, with a Bridge component to be implemented this year. The system automatically generates work orders based upon the inspection input, and the data base can be stratified to analyze and identify trends and problem areas. Veolia has worked with the FRA to have these electronic reports accepted as official inspection reports, simplifying the transfer of information and audits. The SCRRA manager closest to this project was Rich Walker, who has left the Agency, but can be reached at 909 980-1982 / 909 556-2906 mobile.	
Name of Client (Owner/Agency or Contractor): So. California Regional Rail Authority (SCRRA)	
Address:	2701 N. Garey Avenue, Pomona, CA 91767
Contact Name: Wayne Mauthew	Telephone: 909 592-6154
Owner's Contract No: MS214-09	E-mail: mauthew@scrca.net
Contract Value (US\$):	\$96 million

FORM E-2

INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	8 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible: <i>“B Pass”: a mobility companion to simplify the passenger experience Innovative Mobile Phone application with NCF technology - Near Field Communication.</i> BPass is the first NFC ticketing solution to come on to the market and is a mobile telephone application. Available on a large range of smart phones, Bpass works even if the phone is off, or the battery is discharged. This innovation has been first implemented in Veolia Transdev contract in Nice (south of France). Customer benefits - ticket purchase and validation with account update - journey planning and access to bike and car sharing also operated by Veolia in Nice - timetable information and service/route disruption via reading NFC tag or 2D barcode available at bus stops. - access to local news & events Business model - customers have “their own” automatic ticket dispenser, card and passenger information terminal. - Easy deployment thanks to compliance to open standards. - Veolia is the dedicated contact for the Public Transportation Authority (PTA) and operators and handles relations with secure elements providers, contents partners, technical operators and payment solution providers. =>B-Pass is intended to become the preferred purchasing channel for customers, thus reducing investment and operating costs for PTAs and operators. Deployment Planning Since the end of 2010 the system has been operational in Nice. In 2012, after 2 years of feedback, it will start to be deployed in several other regions.	
Name of Client (Owner/Agency or Contractor): METROPOLE NICE COTE D’AZUR Address: Direction des Transports – 06364 NICE Cedex 4 (FRANCE) Contact Name: Yvette LARTIGAU Telephone: +33 4 89 98 16 67 Owner’s Contract No: E-mail: yvette.lartigau@nicecotedazur.org Contract Value (US\$): Global Contract for 8 years - annual value \$150 m	

FORM E-2

INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	7 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
EcoTrainBook: innovative eco-driving assistance system for railways operation EcoTrainBook (or FASSI) is an innovative eco-drive program implemented by Veolia in the German networks of Nord-OstseeBahn (NOB), Nord-West Bahn (NWB), Bayerische Oberlandbahn (BOB) and Rheinisch-Bergische Eisenbahn (RBE), with results of fuel savings of up to 8 %. The system requires hardware, software and training to guide train operators to modulate speeds to the most productive levels. Other key benefits of the system are : - Improved OTP (on-time performance) : the system guides the train driver with the best speed proposal to arrive smoothly at the next signal exactly when it should be green, (according to the timetable) and on time in the next station - Smoother riding: avoiding high speed, unnecessary braking & expensive acceleration. - Real time positioning: data can be used to monitor the entire fleet and refine the Central Control Room (CCR) functions, and supports real-time passenger information systems. - Automatic back office/driver communication all fleet: via the touch screen, prepared messages can be sent by the driver to the Control Room in regards to obstacles on tracks, works, incidents, etc. As all trains equipped with the system are connected to each other in real time, the messages can be made available to all trains automatically. It is likely that US engines have even a higher saving potential due to higher fuel consumption compared to European trains. - Technical information: the supplier of the system (Data Informatik Ltd.) has some experience outside Germany particularly in the UK. Data Informatik confirmed that they are interested to provide an offer for a rail tender in US and see possibilities together with a local partner to implement and service the product. Fassi-Ecotrainbook references and results since 2006 : - implementation with 4 Veolia Germany rail networks (NOB, BOB, NWB and RBE) and several DB Regio rail networks (3 in Germany and 1 in UK) - 300 trains fitted and average energy savings between 4 and 10%	
Name of Client (Owner/Agency or Contractor):	LVS Schleswig-Holstein
Address:	Landesweite Verkehrsservicegesellschaft mbH
Contact Name: Andreas GESSLER (Manager Transportation Contracts and Quality) Bernhard WEWERS (General Manager)	Raiffeisenstraße 1, 24103 Kiel - GERMANY
Owner's Contract No:	Telephone: +49 431 660 19 0
	E-mail: ya.gessler@lvs-sh.de
Contract Value (US\$):	Global contract 10 y since 2005 : \$920 m (annual sales: \$90 m)

FORM E-2
INNOVATIVE DELIVERY INFORMATION

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

Name of Firm:	Veolia Transportation
Years of Experience:	2 Years
Contract Name, Location, Description, and Nature of Work for which the Firm was responsible:	
Rhôneexpress – Lyon (France) <i>Innovative P3 rail express airport link and ticketing systems</i> “RHONEXPRESS” is the first P3 for rail construction and operation in France, fully operated by Veolia Transdev. Veolia Transdev is also a minority shareholder of the Concession Contractor company “Rhonexpress”, which enjoys a 30 year-long term concession contract with the PTA and licensing body, Rhone Council (Departement du Rhône). The express rail airport service runs on dedicated rail tracks for 7 km from Lyon Airport, and then shares the light rail tracks for 15 additional kilometers all the way to Lyon Center City terminal (total length of the line is 22km) with fleet of 6 trains with 76 seats each. Departures occur every 15min at peak hours and 30min off peak, 365 days a year. It can reach 100 km/h (62 mph). The short travel time of less than 30mins is highly competitive, as the same trip takes 50mins-90mins by car or by bus. Innovative Ticketing System The implementation of a ticketing system, compatible with all standards and compliant with the regional ticketing inter-operability scheme (same media-card) was put in place where the ticket sale is facilitated via various ways—either ticket machines at stations or online where the customer can choose his type of ticket: barcode printout, on a smart phone, or via bankcard. Additionally tickets can be purchased on board with dedicated bank IT architecture. This system allows one conductor on board every train, with one single PDA for sale and validation of all ticket methods (paper barcode, smartphone contactless, bankcard proof of ticket). The client can track his/her ticket on internet, or cancel and ask for refund. The efficient ticketing system allows for additional time for the conductor on board to act as a customer service agent. This is a strong point of satisfaction for the customers –97% of customers declared being fully satisfied by the on-board customer service—which reinforces customer loyalty.	
Name of Client (Owner/Agency or Contractor): RHONEXPRESS SA (PPP Contractor - Concessionary)	
Address:	55, avenue Paul Krüger, 69100 VILLEURBANNE (FRANCE)
Contact Name: Cedric Fechter	Telephone: +33 4 72 15 61 50
Owner’s Contract No:	E-mail: cedric.fechter@vinci.com
Contract Value (US\$):	Global contract 30 years : \$1130 m (annual sales 2012 : \$14 m)

FORM E-3
SUBCONTRACTOR INFORMATION
(Including Consultants)

Name of Proposer: Massachusetts Bay Commuter Railroad Company (MBCR)

SUBCONTRACTOR NAME	ADDRESS AND PHONE NUMBER	ROLE UNDER THE CONTRACT
Arcadis	200 Harvard Mills Square Suite 430, Wakefield, MA 781-224-4488	Environmental services and oversight
HDR	695 Atlantic Ave. Boston, MA 02111 617-357-7700	Engineering and transportation technical assistance
Keville	475 School St. Suite 11 Marshfield, MA 02050 781-837-3884	Construction management
LM Holdings, LLC	10 Commerce Way, Westford, MA 01886 978- 692-1903	Construction services
Metrik Manufacturing Company	142 Bedford Rd. Woburn, MA 01801 781-932-6697	Rolling stock parts supplier
Mikulsky Railway Supply	6295 W. 49 th St. Reading, PA 19606 610-370-1442	Locomotive parts, signal and communication, and track equipment supplier
Roxbury Electric Cable and Conduit	P.O. Box 136 Readville, MA 02137 617-364-8100	Transit cable supplier
Sullivan and McLaughlin Companies	74 Lawley St. Boston, MA 02122	Electrical testing and support
Tools Unlimited	79 Porter St. Stoughton, MA 02072 781-341-1188	Material supplier and tool repair services
UTC/Rail Airsources, Inc.	501 Highland Ave. Morton, PA 19070 610-983-0102	Wheel shop vendor

Arcadis provides environmental services and oversight. Arcadis oversees the operation of the wastewater treatment plant at CRMF/BET, the oil/water separators and environmental protection pads and collection trays at train layover locations.

HDR, Inc. is an international firm providing architecture, consulting, engineering, and construction expertise. HDR provides technical expertise for right-of-way projects. HDR also is assisting MBCR in providing rail traffic controller (RTC) mapping of the entire commuter rail system.

Keville Enterprises, Inc. provides construction management and oversight for right of way projects. Keville has provided estimating, scheduling, oversight and management assistance for MBCR's ARRA ("American Recovery and Reinvestment Act, 2009") funded projects.

LM Holdings LLC provides construction services. LM Holdings supports culvert replacement projects and other major construction projects such as the Lynn Slope Stabilization project.

Metrik Manufacturing Company, which has represented 10.3% of our DBE goal since August 2003, worked with us to fabricate parts for the MBTA's rolling stock in a quick turnaround to maintain service. Ms. Marlene J. Kohr is the contract at Metrik. Her telephone number is 781-932-6697 and email address is mkohr@metrikmfg.com.

Mikulsky Railway Supply assists us by providing locomotive parts, signal and communication, and track equipment. They are also a key supplier of material for MBCR's ARRA ("American Recovery and Reinvestment Act, 2009") funded projects.

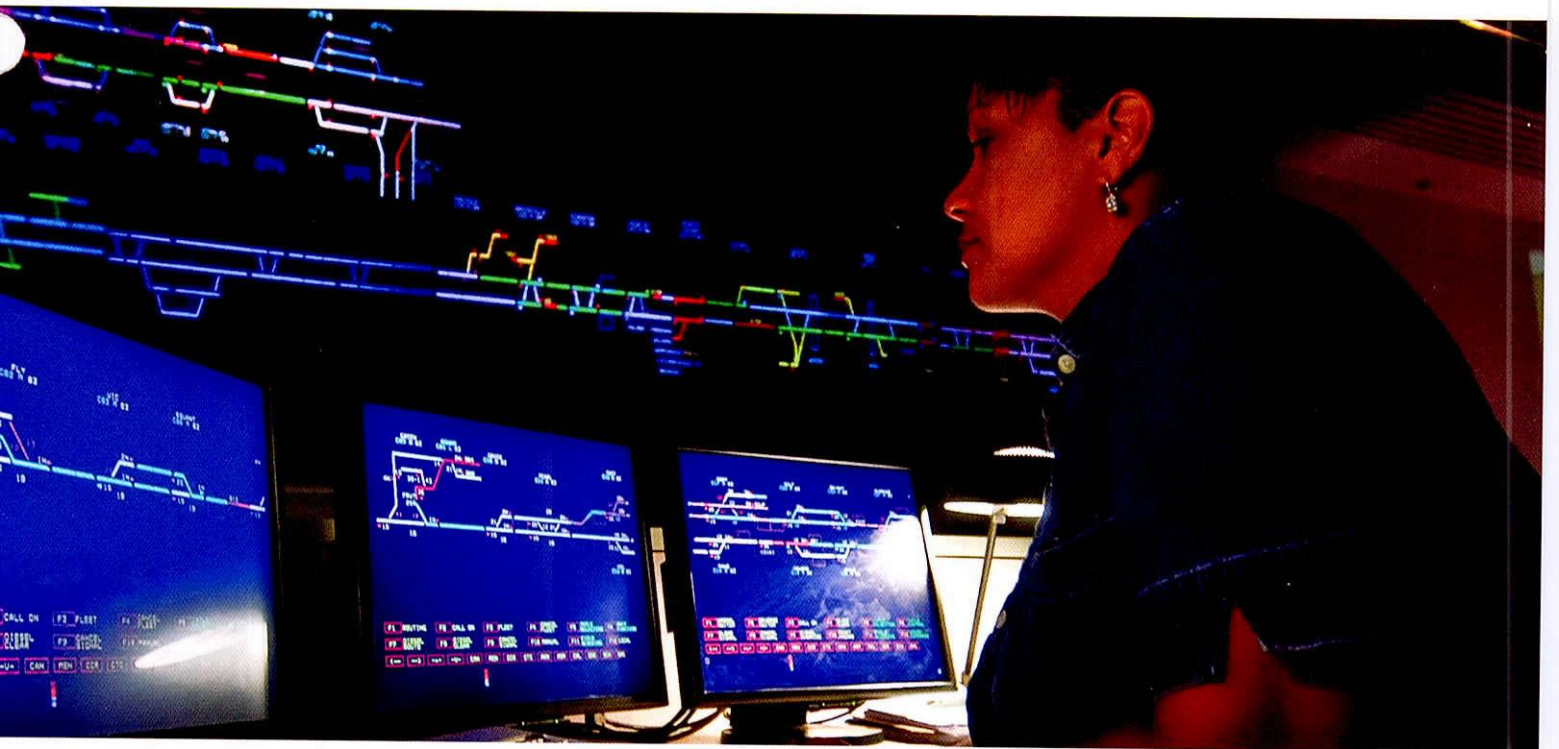
Roxbury Electric Cable and Conduit works with us by providing competitive Transit Cable quotes and delivery schedules to enable MBCR to maintain project schedules for ARRA funded projects.

Sullivan and McLaughlin Companies provide electrical testing support. Sullivan and McLaughlin Companies provide electrical testing of high voltage electricity at layovers.

Tools Unlimited provides supplies, materials and tool repair services to MBCR. This is a local DBE, located in Stoughton, MA, working with MBCR Mechanical and Engineering Departments.

UTC/Rail Airsources, Inc. performs as MBCR's wheel shop vendor, a critical function. This firm is a subject matter expert and their expertise has proved instrumental in maintaining train equipment in operation.

Diversity



MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY

During the term of its current contract, Massachusetts Bay Commuter Railroad Company ("MBCR") has implemented specific policies and taken concrete action to meet the MBTA's DBE goal of 11.5% of the total cost of subcontracts, goods and services purchased or entered into by MBCR. As discussed below, we have done this by (1) mandating our Equal Opportunity and Diversity ("EOD") staff consistently participate in DBE training programs; (2) instituting effective outreach programs to identify DBE businesses; (3) assisting businesses in gaining DBE certification; and (4) educating department heads, managers, supervisors, and employees with purchasing responsibilities about MBCR's DBE Program commitment and requirements. Through these efforts, with a dedicated team for EOD, we have worked with approximately 75-80 DBEs throughout the Contract period, procuring approximately \$48.4m from these firms. Although we are proud of our partnership with all DBEs, the following firms are a representative sample of our DBE successes.

UTC/Rail Airsources, Inc., which has represented 20% of our DBE goal since August 2003, performs as MBCR's wheel shop vendor, a critical function. This firm is a subject matter expert and their expertise has proved instrumental in maintaining train equipment in operation. Ms. Beverly Scott is the contact at UTC/Rail Airsources, Inc. Her telephone number is 610-983-0102 and email address is airsources@aol.com

Metrik Manufacturing Company, which has represented 10.3% of our DBE goal since August 2003, worked with us to fabricate parts for the MBTA's rolling stock in a quick turnaround to maintain service. Ms. Marlene J. Kohr is the contract at Metrik. Her telephone number is 781-932-6697 and email address is mkohr@metrikmfg.com.

Mikulsky Railway Supply, which has represented 5.33% of our DBE goal since July 2003, worked with us to provide locomotive parts, signal and communication, and track equipment. They are also a key supplier of material for MBCR's ARRA ("American Recovery and Reinvestment Act, 2009") funded projects. Ms. JoAnn Mikulsky is the contact at Mikulsky. Her telephone number is 610-370-1442 and email address is joannmikul@aol.com

Tools Unlimited, which has represented 1.79% of our DBE goal since August 2003, has provided supplies, materials and tool repair services to MBCR. This is a local DBE, located in Stoughton, MA, providing jobs to MA residents and contributing to the local economy, working with MBCR Mechanical and Engineering Departments. Ms. Kerry Ann Pires is the contact at Tools Unlimited. Her telephone number is 781-341-1188.

Roxbury Electric Cable and Conduit, which represented 0.523% of our DBE goal since November 2005, worked with MBCR in a dependable and consistent manner providing competitive Transit Cable quotes and delivery schedules to enable MBCR to maintain project schedules for ARRA funded projects. Ms. Patricia A. Tierney is the contact at Roxbury Electric Cable and Conduit. Her telephone number is 617-364-8100.

Of the five DBE businesses listed above, three are a local DBE business (Tools Unlimited, Metrick, and Roxbury Electrical). Several of the DBEs MBCR has worked with during the contract period, including Keystone and Dagle Electrical Construction, exceeded the DBE criteria specified in CFR 49, Part 26, and graduated to an MBE ("Minority Business Enterprise") status.

EOD STAFF TRAINING:

At MBCR, our EOD staff is always looking for ways to enhance their training to improve upon our utilization of DBEs. In June 2005, MBCR's EOD staff participated in a DBE Program training seminar offered by the Federal Transit Administration ("FTA"). This training was instrumental in assisting MBCR in solidifying its DBE Program

process. On October 27, 2007, MBCR received additional guidance from the MBTA when our EOD staff participated in an MBTA DBE Workshop.

OUTREACH PROGRAMS:

Since 2003, MBCR has notified all vendors in its DBE Directory of MBCR's DBE Policy Statement and of its commitment to providing DBEs with an "equal opportunity to receive and participate in the award of contract opportunities." MBCR's EOD staff has worked closely in collaboration with our Purchasing Department to continuously expand our outreach and sourcing of qualified DBEs for goods and services. A key element of this outreach has been our active participation in business enterprise trade shows, fairs, and conferences that specialize in DBEs. For example, the EOD department arranged a booth at the New England Railroad Forum & Expo held in Providence, Rhode Island, on March 25, 2007, and sent invitations to all vendors in the MBCR DBE Directory. This effort enabled us to successfully promote our DBE Program to a wide variety of Prime and Tier II vendors. Consequently, MBCR was able to gain a new DBE from this forum when Lawson Quality Products, headquartered in Chicago, Illinois, was introduced to RL Controls. Today, RL Controls participates in a Prime/DBE partnership with Lawson supplying MBCR electrical components.

Participation in MBTA sponsored events has also been at the forefront of our DBE strategy. In April 2007, EOD staff invited local vendors from the MBCR DBE Directory to participate in the "How to Do Business With the MBTA" forum. This "Meet and Greet" event provided networking opportunities for Prime contractors and prospective DBE subcontractors. Moreover, MBCR's EOD and Purchasing staff participated in the MBTA Organizational Diversity and Civil Rights ("ODCR") Government Compliance Unit's SOMWBA Construction Reform Program and Vendor Fair Event, held on June 22, 2007. This event was instrumental in connecting our EOD staff with several small minority-owned, women-owned, and other disadvantaged business owners, as well as with Prime contractors, many of whom were interested in participating in a possible MBCR Business Networking Forum.

CERTIFICATION ASSISTANCE:

MBCR has always believed that it is not enough to simply network and meet as many DBEs as possible. Our experience has allowed us to realize that DBEs face many issues and concerns and sometimes find it difficult to establish ongoing, long-term relationships with many of the larger Primes who do business with MBCR. Accordingly, MBCR has always explored ways to develop and nurture DBEs throughout our relationship. We inform potential DBEs about Massachusetts Supplier Diversity Office ("SDO") requirements and refer out-of-state vendors (DBE certified in their home states) to SDO for information regarding Massachusetts' DBE certification application. Through this effort, MBCR has assisted several vendors in attaining SDO DBE certification including, but not limited to, Jaymor Enterprises, Inc. d/b/a: Manufacturer's Warehouse., TransitAir Inc., and Standard Modern.

We also made it more convenient for DBEs to register on the MBCR vendor list. In collaboration with MBCR's IT Department, EOD developed an online DBE information/registration site titled DBE Vendor Connection and Registration. The initial rollout of this site netted thirty five (35) DBE vendor registrations.

EMPLOYEE EDUCATION:

MBCR's DBE efforts have not only been focused on external outreach. We believe a critical component of our DBE Program is mandating that our employees possess a working understanding of our Program. To achieve this, EOD first conducted DBE training for the Purchasing Department staff and Administrative staff responsible for department level purchasing. Subsequently, to ensure that all employees are educated in our Program, EOD developed an extensive educational and awareness campaign which was posted on Steelwheels, MBCR's intranet website. This campaign included all aspects of our DBE Program information, including the DBE Policy Statement and DBE "Frequently Asked Questions". We reinforced this campaign, particularly to those employees responsible for procurement, by promoting an understanding of the critical importance of the DBE Program for developing small businesses and MBCR's key role in that development.

Furthermore, to complement this online effort, EOD developed and presented to all MBCR managers, buyers, and P-Card users (those who have access to a company credit card) a DBE training program, entitled Doing Your Part and P-Card User Power. This training program was designed to encourage all MBCR purchasers to consider DBE vendors first when purchasing goods and services. Following this training, MBCR posted the Doing Your Part training program on EOD's intranet site to offer further information to all employees.

ALTERNATE CONCEPTS, INC.

ACI works with several DBEs both directly and as the managing partner for Paul Revere Transportation LLC a Chelsea, Massachusetts based passenger bus company, on various contracts. For the Tren Urbano contract, two subcontractors, Fuller Cleaning and St. James Security, employ 79 and 112, respectively, for work in the train stations, the O&M building, along the right-of-way and Tren Urbano grounds. Both of these subcontractors are Puerto Rico owned and have been consistently successful in providing necessary services to ACI. These two contracts, taken together, are valued at over \$6 million in procurement of services for 2011. Contacts:

Marcos Rivera Rivera, Esq. President, St James Security Services Inc. 787 754-8448, email mrivera@stjamessecurity.com

Mr. Luis G. Cruz, VP Operations, Antilles Cleaning Services, Inc. Fuller Group Puerto Rico, 787-788-8080, email LGCruz@fullergrouppr.com

BOMBARDIER TRANSIT CORPORATION

As the providers of O & M Services and manufacturing of rolling stock equipment Bombardier encourages the use of DBE / MBE & WBEs on its contracts. This level of support is confirmed by Bombardier's Policy Statement co-signed by our Vice – President of Supply Management and the President of North America.

Bombardier has been involved with DBE, WBE and MBE programs for over 30 years. Most of our experience is based on FTA funded contract for which a DBE annual goal was established; historically our goal has always been around the 10% mark. Bombardier has also administered three contract required Mentor-Protégé Programs.

In our M7 project with the LIRR, Bombardier exceeded the 5% MBE and 5% WBE goals, with participation of 11.37% resulting from the utilization of 24 different WBE/MBE firms.

Bombardier is always proud to see a DBE, WBE/MBE firms graduate out of the program meaning that the ultimate goal has been achieved. We strive to look for new ways of introducing DBE, WBE/MBE firms into our current business development plan and help them grow to the point of becoming a regular supplier with whom we will keep working even though they are no longer a DBE, WBE/MBE.

South Florida Regional Transportation Authority / Tri-Rail – Miami, Florida

Bombardier uses several Disadvantaged Business Enterprises in its contract to provide service for the SFRTA. These duties include Maintenance of Equipment, Facility Maintenance and Cleaning. Bombardier established a DBE goal of 10% of contract value with 12% being attained to date.

Contact: Marie Jarman, Administrative Compliance Office, SFRTA / Tri-Rail, 954-788-7944; email jarmanm@sfrta.fl.gov

New Jersey Transit / Southern New Jersey River Line – Camden, NJ

Bombardier provides all services for the O & M of New Jersey Transit's Southern River Line. With a DBE goal of 17% of contract value Bombardier has currently achieved 23.8% of contract value by using DBE's in its contract for Maintenance of Equipment, Operations, Facility & Station Maintenance and Maintenance of Way.

Contact: Lisa-Marie Codrington, Director of Contract Compliance, 973-491-8941; email lcodrington@njtransit.com

Veolia Transportation / North County Transit District Sprinter Line – Escondido, CA

Bombardier (subcontractor to Veolia) was not required by contract to use a DBE for the Maintenance of Equipment Contract of the Sprinter Diesel Multiple Units. However, Bombardier sought a DBE to perform the cleaning services. The site has exceeded its 5% goal by attaining 5.6% participation to date.

Contact: Marco Lopez-Miller, General Manager, Macadi Cleaning, 310-597-1887, email: macadicleaning@aol.com

VEOLIA TRANSPORTATION, INC.

Veolia Transportation Inc. has a history of using Disadvantaged Business Enterprises in its operations and maintenance contracts throughout the United States. We are committed to the use of qualified Minority and Women Owned Business Enterprises as well as Small Business Enterprises for subcontracting opportunities. Below are a few examples of firms we have worked with and have built a relationship that has benefited all parties.

Dallas Area Rapid Transit (DART) Paratransit Contract #1008633

BMR Janitorial is both a Minority Owned Business Enterprise, as well as a Disadvantaged Business Enterprise that has been providing services to Veolia Transportation for over 12 years. BMR currently provides Vehicle cleaning, fueling, detailing and janitorial services for Veolia's paratransit operation in Dallas. BMR's performance and attention to detail has resulted in additional growth with Veolia and BMR has expanded their business by providing vehicle cleaning, detailing, fueling and janitorial for Veolia's fixed route bus operation in Austin Texas.

In addition, BMR has been included as a DBE subcontractor on Veolia's proposal for fixed route bus services in Houston Texas. BMR is one of twenty-one (21) individual MBE and WBE subcontractors that Veolia has utilized in its Dallas paratransit operations, and Veolia has paid out over \$45 million dollars to MBE & WBE firms during the duration of this contract, which currently represents over 38% of the total contract value.

Contact: Mr. Ben Miller, BMR Janitorial, 214 744-5606, 214 536-7389 (mobile), email: Bmrwash1@sbcglobal.net

Maryland Transportation Administration (MTA) Contract No. MTA-1341

Baltimore Para-Transit Service

Dream Management provides Para-transit operators for our MTA contact in Baltimore. Dream started with Veolia on this contract in November 2008, with 17 runs and 20 operators. Dream has grown with us over the past 4 years. They currently have 34 runs and over 40 operators. They also provide a management team to manage their operators, and now provide 2 dispatchers/Liaisons to the control center to help us with dispatch. Dream is currently doing about 5,700 hours a month, which represents about 15% of our total billable hours. Dream has earned over \$4.6 million since starting with Veolia in 2008. Veolia uses a total of five (5), MBE/WBE/DBE's in this contract with payments totaling \$4.2 million annually.

Contact: Luis Gutierrez, President, Dream Management, 443 552-5512; email: lgutierrez@dream-mgmt.com

Houston Metro Guided Rapid Transit Corridors Project

LRT – Technical Planning and Development

In 2009, when Veolia Transportation was selected for Phase I of the project of assisting Houston Metro's LRT Design/Build contractor with technical input and review, RVBA was chosen by Veolia as a Minority Owned Business DBE to provide specific technical support to augment its team. Of the six person technical team assigned to the project, two of the experts were provided by RBVA. RVBA team members reviewed design drawings and specifications relating to vehicle procurement, operations and maintenance of the new light rail system. RVBA provided technical experts to the Veolia team from August 2009, to October 2010, when the scope of the contract was changed and reduced by Metro. During the period of Phase I participation, RVBA billed Veolia \$877,000 and represented 12.7% of Veolia's total contract amount. Although the project in Houston was ended by Metro, Veolia and RVBA continue to have close association on projects, and RVBA is a significant partner in Veolia's current bid to operate the Maryland's MARC Commuter Rail services. RVBA, as a Maryland certified MBE, represents over 10% of our total proposed project costs.

Contact: Claudio R. Bravo, Vice President, RVBA, 703 326-9092, email: claudiobravo@rvba.com

Prince George's County (MD) Contract Bus Service Operations & Maintenance

NISSI is a Minority Owned DBE that provides critical services for Veolia Transportation's fixed route bus operations contract in Prince George's County, Maryland. NISSI group provides non-union staff to Veolia for the operations of the service. In addition, NISSI provides the Mystery Rider program to audit Veolia's field operations and customer service functions. NISSI group represents approximately 9% of Veolia's total contract value for this service.

Like many other DBE firms, the relationship extends beyond the Prince George's contract with Veolia, and NISSI group has been able to expand with us on other contracts and services. Today NISSI also provides employee leasing for Veolia's Supershuttle Unit at BWI Airport, provided interim Mystery Rider audit services on Veolia's new contract with Nassau County, New York, as well as is included in several Veolia proposals for new business.

Contact: Kenneth Gordon, NISSI Group, 240 417-7912, email: Kg@ngi1.com

Equal Employment Opportunity/Workforce Diversity

MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY

Since its inception, MBCR has been strongly committed to expanding workforce diversity and inclusion. We believe in treating employees, customers, and vendors with dignity and respect and providing equal employment and advancement opportunities to all. In 2004, to ensure that our goal of expanding employment opportunities for minorities, women, veterans, and individuals with disabilities was achieved, we established our Equal Opportunity and Diversity Department the MBCR Workforce Diversity Advisory Council ("WDAC"). This Council's mission is to promote and sustain an inclusive workplace in order to continuously maximize creativity, innovation, quality, and productivity through a skilled and diverse workforce.

As discussed below, the EOD Department has led our diversity efforts by (1) increasing recruiting methods through assisting with job fairs; (2) participation in minority, women, and veteran employment event; and (3) creating and sustaining an inclusive workplace where all employees can do their best work free from discrimination, harassment, and retaliation. These actions have been augmented by the charge of the WDAC, which includes members of both labor and management. The success of these efforts is evident in our hiring statistics. Between July 1, 2003 and May 31, 2012, MBCR has increased its number of female employees by 52.69% and the number of its minority employees by 65.81%. This includes a 42.94% increase of African-American employees and 85.11% increase of Hispanic employees between July 1, 2003 and May 31, 2012.

We have not only enhanced our workforce through improved diversity recruitment and retention, we also continually strive to provide promotion opportunities and career growth for women and minorities. In January 2009, MBCR initiated a one-year pilot mentoring program for women employees to encourage career growth for women who traditionally have been under-represented in the railroad industry. This pilot program was a tremendous success, and MBCR aims to roll this program out to all employees in 2012.

INCREASED RECRUITING

During the course of the Contract, MBCR has participated in outreach activities with social services agencies, community-based organizations, cultural organizations, Commonwealth of Massachusetts Employment Centers, technical and vocational schools, and Universities. These include Cambridge Career Source, the Chinatown Coalition Annual Job Fair, Boston Community Centers Job Fair, Mission Hill, the Urban League of Eastern Massachusetts, ABCD Hispanic Center, Hispanic-American Chamber of Commerce, the Chelsea Hispanic Center, Women in Building Trades, TAP Program at Hanscom Air Force Base, and the Veterans Employment Resource Center. These efforts have attracted approximately 154 new employees.

PARTICIPATION IN INDUSTRY EVENTS

MBCR has collaborated with leading industry organizations throughout the contract to gain exposure for our organization and further attract qualified, diverse candidates. The following are representative of these events.

Massachusetts Rehabilitation Commission ("MRC") - Greater Boston Employers' Advisory Board (GBEAB)

As members of the advisory board, MBCR's EOD staff participates in monthly meetings to make the Massachusetts Rehabilitation Commission aware of the opportunities offered by MBCR and assist individuals with disabilities in their job search by providing resume critiques, mock interviews, and information on job openings.

Diversity Jobs Symposium

On October 25, 2007, MBCR's EOD staff, in conjunction with the Executive Office of Transportation / Public Works, the MBTA, Massport, Massachusetts Turnpike Authority, and MassHighway, hosted a Diversity Jobs Symposium at the Massachusetts Transportation Building. The purpose of the Diversity Jobs Symposium was to have a number of related transportation employers' present information about our respective agencies, and the variety of terrific career and job opportunities available to constituents and clients.

Through this Symposium, MBCR's EOD staff established viable, sustainable working relationships to benefit and enhance MBCR diversity recruiting efforts and the recruitment resources directory. As a result, the Chief of EOD was invited to participate in job fairs in New Bedford and Lawrence, MA.

Boston Asian/Chinatown Coalition Annual Job Fair

MBCR/EOD staff worked collaboratively with the Chinatown Coalition to present the 8th Annual Job Fair in the Massachusetts Transportation Building. The job fair was a success, and hundreds of candidates, mostly of Asian descent, had the opportunity to learn about positions and careers at MBCR.

ABCD Summerworks Career Exploration Program, Summer/Youth Job Outreach

In the winter of 2007, MBCR and ABCD ("Action for Boston Community Development"), representatives entered into discussion to plan a Career Exploration Summerworks program to be located at MBCR. This was the inaugural year for this highly successful youth employment program, which provided inner-city youth an opportunity to explore real work experience in the commuter rail / transportation industry. MBCR participated in the program for two years hosting twenty (20) students initially and assisting them with the development of job readiness skills to prepare them for jobs in the workplace. The program was hailed by the Company, ABCD administrators, and the youth participants. One of the graduating interns was subsequently hired into a fulltime exempt position at MBCR, in conjunction with Partners in Transportation, also regularly hosts and organizes diversity celebrations in rotation with other member transportation organizations. MBCR hosts several events each year, including

Women's History Month, Hispanic Heritage Month, and the Asian Pacific-American Heritage Month Celebration, all held at the Massachusetts Transportation Center.

HARASSMENT FREE WORK ENVIRONMENT

MBCR has consistently promoted an inclusive, diverse, and anti-discriminatory work environment. The foundation of our professional atmosphere is our *Comprehensive Organizational Diversity Operations and Procedures Manual*. This Manual was developed by our EOD staff, as specified in the Operating Agreement, and was reviewed and approved by the MBTA. All MBCR managers were provided a copy of the Manual. In addition, all MBCR employees were provided a copy of the *MBCR Employee Guide to the Equal Opportunity and Diversity Department, 2006*.

All new MBCR employees undergo New Hire Orientation. This program includes a segment on Diversity and Harassment Prevention, which explores diversity and inclusion and what these terms mean at MBCR. New hires also receive copies of MBCR's Policy Against Discrimination and Harassment and the Equal Opportunity and Workplace Accommodation Policies.

To augment our Manuals we have held mandatory training sessions on diversity, inclusion, and harassment prevention. In the spring of 2007, MBCR's Customer Service Department and EOD collaborated on the design and implementation of a training module for managers titled *Performance is Everything*. This was a two-day management competency training program that included a half-day module titled *Diversity and Preventing Harassment in Our Workplace*. The module included information about Federal and State laws that prohibit workplace discrimination and details about anti-discrimination reporting agencies. Participants were required to review our Company EEO policies, Equal Opportunity & Diversity policy, Policy Against Discrimination, Harassment, and Workplace Accommodation Policy. As a result, our employees learn to recognize and prevent unlawful harassment and understand that MBCR has a Zero Tolerance Policy regarding harassment and discrimination. The clear message drilled into all employees is that one comment, one time, can result in discipline up to and including discharge, depending on the facts of the case.

In 2006, to further maintain and aggressively enforce our Zero Tolerance Policy, MBCR established an anonymous hotline for employees to report violations of MBCR's Code of Conduct. Such violations include discrimination, harassment, retaliation, workplace violence or unethical or illegal conduct. Employees are able to call and report misconduct through a confidential third-party vendor.

In January of 2008, in an effort to deliver the *Diversity and Preventing Harassment in Our Workplace* training to our rank and file, EOD and Customer Service together developed a cadre of internal trainers. Eight (8) managers from across the organization were nominated by their department heads to support this effort. These managers and WDAC member Managers from across MBCR departments were selected to participate in a Train the Trainer Program and then roll out this training to union employees. A highlight of this training was a discussion about the changing demographics of the Massachusetts workforce and its impact on MBCR. Altogether, from April 2008 to August 2011, MBCR's EOD staff trained 1,597 employees on diversity and harassment prevention.

ALTERNATE CONCEPTS, INC.

ACI is committed to employing a diverse and skilled workforce across our various locations, contracts and job classifications. As such, ACI's commitment to utilizing available resources to increase opportunity for minorities and women has yielded positive results through training and promotion efforts. Taken as a whole, ACI's minority employment represents over 87% of the total workforce, and women represent 24.5% of the company's total workforce.

Additionally, ACI is managing partner for Paul Revere Transportation LLC. Paul Revere serves many government and private bus contracts locally and employs a workforce where minorities represent 52.6% of the total workforce and women represent 11% of the total employees.

BOMBARDIER TRANSIT CORPORATION

Recognizing that people are our strongest asset, Bombardier has a proven history of selecting the best person for the job regardless of their origins, Man or Women, etc. Bombardier does have an Affirmative Action plan for all sites in the USA. In the USA we have smaller sites and with that fact strive to increase our percentages mainly due to small quantities of people spread out over multiple locations. Bombardier's minority employment represents 28.6% of our total number of employees and women represent 14% of the company's total workforce.

VEOLIA TRANSPORTATION, INC.

Veolia Transportation Inc has a strong history of employing women and minorities. Minority employment at Veolia represents just over 60% of our total number of employees and women represent 31% of the company's total workforce.

Veolia's goals include strategic alignment of our workforce goals with the organization's vision, mission and goals for business growth and success. We will continue to strive for a workforce plan that is inclusive of qualified females and minorities in all job groups and ensures the right people with the right qualifications are available at the right time to achieve the organization's goals.

Past Performance

Past Performance



Name of Proposer: MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC
Firm Name: MASSACHUSETTS BAY COMMUTER RAILROAD COMPANY, LLC (MBCR)

Claims, Dispute Proceedings, Litigation, and Arbitration Proceedings

Issue/Action	Owner/agency initiated action	Resolution/outcome	Indicate if unresolved or outstanding action	Current owner contact name, telephone number, and E-mail address
FELA claims and wrongful death claims against MBCR arising from January 9, 2007 accident. Work crews on track struck by commuter rail train in Woburn, MA.	Employees and estate of deceased employee pursued claims for wrongful death and bodily injury.	All claims resolved	All claims resolved	MBCR, Hugh Kiley, General Manager, 617-222-8022, <u>hugh.kiley@mbcr.net</u> MBTA, Jonathan Feltner, First Associate General Counsel 617- jfeltner@mbta.com
Declaratory action brought by MBTA and MBCR against CSX and Cohenno Lumber and FELA, and passenger claims against CSX, Cohenno, MBTA and MBCR, arising from runaway CSX freight car collision with commuter rail train on March 25, 2008 in Canton, MA.	MBTA and MBCR sought declaratory relief against CSX and Cohenno Lumber. Approximately 200 passenger claims were pursued against CSX, Cohenno Lumber, MBTA and MBCR. Three FELA claims were pursued.	MBTA and MBCR settled with CSX and Cohenno. FELA claims have been fully resolved. All but two passenger claims have been fully resolved.	All but two passenger claims have been resolved	MBCR, Hugh Kiley, General Manager, 617-222-8022, <u>hugh.kiley@mbcr.net</u> MBTA, Jonathan Feltner, First Associate General Counsel 617- jfeltner@mbta.com
Lawsuit filed in Federal District Court, District of Massachusetts in 2007 by four named plaintiffs seeking to have a class certified alleging discrimination in promotional practices.	Four named MBCR employees.	On March 17, 2010, the court rejected plaintiffs' request for class treatment and found that the evidence "affirmatively and persuasively refute[d] plaintiffs' allegations" and concluded that the statistical evidence showed that blacks and Hispanics across the spectrum at the MBCR had not faced difficulties in securing promotions as alleged by the plaintiffs. Individual plaintiffs' claims were fully resolved and the case was dismissed with prejudice.	All claims resolved	MBCR, Hugh Kiley, General Manager, 617-222-8022, hugh.kiley@mbcr.net
In 2010, the MBTA and MBCR entered into a Consent Decree with the Environmental Protection Agency relating to alleged violations of the federally enforceable state locomotive idling regulations.	U.S. Department of Justice, Environmental Protection Agency	Consent Decree entered providing for civil penalties, compliance measures, a supplemental environmental project and stipulated penalties for future violations of the regulations and conditions of the Consent Decree	All claims resolved	MBCR, Hugh Kiley, General Manager, 617-222-8022, <u>hugh.kiley@mbcr.net</u> Massachusetts Bay Transportation Authority MBTA, Janis Kearney, Director of Environmental Compliance, 617-222-1592, <u>jkearney@mbta.com</u>

Termination for Cause or Default

Contract	Describe reason for termination	Dollar amount involved	Current owner contact name, telephone number, and E-mail address
There have been no terminations for cause or default against MBCR.			

Disciplinary Action

Action	Describe action taken	Current owner contact name, telephone number, and E-mail address
MBCR has not been subject to any disciplinary action.		

Safety Issues/ Accidents

Issue/Accident	Describe issue/accident	Federal Railroad Administration investigation?	Current owner contact name, telephone number, and E-mail address
Employee fatality	Employee struck by CSX freight train, Wellesley, MA on December 6, 2003. Case has been resolved.	Yes	MBCR, Hugh Kiley, General Manager, 617-222-8022, hugh.kiley@mbcr.net MBTA, Jonathan Feltner, First Associate General Counsel 617-222-3175, jfeltner@mbta.com
Employee fatality	Employee struck by work equipment, Gloucester, MA on June 22, 2006. Case has been resolved.	Yes	MBCR, Hugh Kiley, General Manager, 617-222-8022, hugh.kiley@mbcr.net MBTA, Jonathan Feltner, First Associate General Counsel 617-222-3175, jfeltner@mbta.com
Crossing accident	Low bed trailer stuck on crossing and struck by commuter train, Franklin, MA on October 23, 2006. MBCR and MBTA prevailed on Motion for Summary Judgment and have no responsibility for the accident.	Yes	MBCR, Hugh Kiley, General Manager, 617-222-8022, hugh.kiley@mbcr.net MBTA, Jonathan Feltner, First Associate General Counsel 617-222-3175, jfeltner@mbta.com
Train/Equipment accident described above.	Work crew on tracks struck by commuter rail train, Woburn, MA in January, 2007 described above. All cases arising from the accident are resolved.	Yes	MBCR, Hugh Kiley, General Manager, 617-222-8022, hugh.kiley@mbcr.net MBTA, Jonathan Feltner, First Associate General Counsel 617-222-3175, jfeltner@mbta.com
Commuter/freight car accident described above.	Commuter train struck by a runaway CSX freight car, Canton, MA on March 25, 2008 described above. All but two passenger claims are resolved.	Yes	MBCR, Hugh Kiley, General Manager, 617-222-8022, hugh.kiley@mbcr.net MBTA, Jonathan Feltner, First Associate General Counsel 617-222-3175, jfeltner@mbta.com

Form PP
Past Performance

Issue/Accident	Describe issue/accident	Federal Railroad Administration investigation?	Current owner contact name, telephone number, and E-mail address
Commuter train/bunter accident	Commuter train struck a bunter at South Station, Boston, MA on September 15, 2009	Yes	MBCR, Hugh Kiley, General Manager, 617-222-8022, <u>hugh.kiley@mbcr.net</u> MBTA, Jonathan Feltner, First Associate General Counsel, 617-222-3175, <u>ifeltner@mbta.com</u>
MBCR and the MBTA entered into a Safety Compliance Agreement in 2008 with the Federal Railroad Administration (FRA).	MBCR, the MBTA, and FRA entered into the Safety Compliance Agreement mandating that MBCR undertake corrective actions, including program revisions and training, to ensure compliance with RWP regulations, Operating Rules Program, and Drug and Alcohol Program. The Agreement also pledged certain industry benchmarking goals and the implementation of best practices on the Commuter Rail system, with an FRA assessment to occur prior to the Agreement's termination by mutual consent.	Yes; by a letter of June 24, 2008, FRA, MBCR, and the MBTA agreed to terminate the Safety Compliance Agreement effective on June 24, 2009.	MBCR, Hugh Kiley, General Manager, 617-222-8022, <u>hugh.kiley@mbcr.net</u> FRA Region 1, Janet Lee, Deputy Regional Administrator, 617- 444-3990, <u>janet.lee@dot.gov</u> MBTA, Steven Mudge, Senior Director of Railroad and Water Transportation, 617-222-3440, <u>smudge@mbta.com</u>
Under its Operating Agreement with the MBTA, MBCR is responsible for compliance with safety instructions or directions given by various agencies, including the Federal Railroad Administration (FRA) and the Occupational Safety and Health Administration (OSHA). Violations are alleged by inspectors from these agencies from time to time with associate fines. In MBCR's experience, the fines noted with the alleged violations are typically \$5,000 or less, and MBCR has always resolved these matters with the agencies by taking corrective action, implementing mitigating measures, and/or paying a sum less than the stated fine amount.			
During the past 10 years in the normal course of operating the MBTA's commuter rail system, MBCR has been involved in trespasser strike events and grade crossing accidents which have resulted in fatalities and serious injuries. In none of these situations has the accident or event been determined to be attributable to an error or omission of MBCR.			

Firm Name: Alternate Concepts, Inc.

Claims, Dispute Proceedings, Litigation, and Arbitration Proceedings

Issue/Action	Owner/agency initiated action	Resolution/outcome	Indicate if unresolved or outstanding action	Current owner contact name, telephone number, and E-mail address
In December 2003, the Siemens Transit Team (STT) Consortium (of which ACI is a part) filed a civil action against the Puerto Rico Highway Transportation Authority (PR HTA) in the Superior Court of PR related to the design and construction of the Tren Urbano system.	The PR HTA asserted counterclaims against the Consortium and other third party contractors with respect to the civil action brought by the STT Consortium in December 2003.	A settlement agreement was reached by the Parties and executed in May, 2010. The outcome of the settlement was a payment to Siemens by the PR HTA and an agreement that Siemens would be held responsible for completing certain items of work called "Open Action Items." This settlement agreement also disbanded the members of the Consortium and led to a contract amendment that made ACI the sole contractor for O&M services as of June 2010 for five additional years. It should be noted also that Siemens contracted ACI to perform some of the "Open Action Items".	All Claims Resolved	Puerto Rico Highway and Transportation Authority Contact: Maria Elena Cristy Phone: 787.503.3303 mecristy@dtop.gov.pr

Form PP
Past Performance

Issue/Action	Owner/agency initiated action	Resolution/outcome	Indicate if unresolved or outstanding action	Current owner contact name, telephone number, and E-mail address
In 2007, a minor child, who was walking to a Tren Urbano station entrance with family members sustained an injury to his left eye when he walked into a plant that was part of the station's landscaping.	The Minor, the Minor's mother, siblings, and grandmother (the Plaintiffs) brought suit seeking compensation for the Minor's injuries.	In 2009, Plaintiffs filed a civil action for damages in the US District Court of PR against the PR HTA, ACI, Chartis Insurance, among others, seeking compensatory and economic damages in the amount of \$19 million.	Case pending	Puerto Rico Highway and Transportation Authority Contact: Maria Elena Cristy Phone: 787.503.3303 mecristy@dtop.gov.pr

Termination for Cause or Default

Contract	Describe reason for termination	Dollar amount involved	Current owner contact name, telephone number, and E-mail address
There have been no terminations for cause or default pursued against ACI.			

Disciplinary Action

Action	Describe action taken	Current owner contact name, telephone number, and E-mail address
Fine in 2010 by the Puerto Rico Environmental Quality Board	An on site inspection resulted in fines due to the storage of hazardous materials. The fine was initially set at up to \$200,000 but that was negotiated to a final penalty of \$6,000 due to ACI's proactive response in correcting the violations.	Puerto Rico Highway and Transportation Authority Contact: Maria Elena Cristy Phone: 787.503.3303 mecristy@dtop.gov.pr

Safety Issues/ Accidents

Issue/Accident	Describe issue/accident	Federal Railroad Administration investigation?	Current owner contact name, telephone number, and E-mail address
ACI has not been involved in any major accidents or events related to the provision of rail services.			

Firm Name: **Bombardier Transit Corp.**

Claims, Dispute Proceedings, Litigation, and Arbitration Proceedings

Issue/Action	Owner/agency initiated action	Resolution/outcome	Indicate if unresolved or outstanding action	Current owner contact name, telephone number, and E-mail address
Bombardier Transit Corporation has not been involved in any claims, dispute proceedings, litigation proceedings or arbitration proceedings involving amounts in excess of \$1 million and related to the performance of any operation or maintenance contract during the past five years.				

Form PP
Past Performance

Termination for Cause or Default

Contract	Describe reason for termination	Dollar amount involved	Current owner contact name, telephone number, and E-mail address
There have been no terminations for cause or default against Bombardier Transit Corporation.			

Disciplinary Action

Action	Describe action taken	Current owner contact name, telephone number, and E-mail address
Bombardier Transit Corporation has not been subject to any disciplinary actions.		

Safety Issues/ Accidents

Issue/Accident	Describe issue/accident	Federal Railroad Administration investigation?	Current owner contact name, telephone number, and E-mail address
Bombardier Transit Corporation has not been involved in any major accidents or events related to the provision of rail services.			

Firm Name: Veolia Transportation, Inc. (VTI)

Claims, Dispute Proceedings, Litigation, and Arbitration Proceedings

Issue/Action	Owner/agency initiated action	Resolution/outcome	Indicate if unresolved or outstanding action	Current owner contact name, telephone number, and E-mail address
Wrongful death and personal injury lawsuits against Veolia Transportation, Inc., Connex Railroad LLC and Southern California Regional Rail Authority (SCRRA) arising out of collision between a Metrolink Commuter train operated by Connex and a UP Freight train at Chatsworth, CA in September 2008.	Actions were brought in state court by approximately 95 Plaintiffs (mostly victims and family members of victims of the accident). Various claims and counterclaims and lawsuits were brought by the SCRRA and Veolia/Connex.	All claims arising out of the Chatsworth accident have been resolved and fully discharged as a result of a federal interpleader action and creation of a \$200M victims fund coordinated by VTI and funded by insurance carriers for SCRRA and Veolia, which action and fund were approved by a federal district court in January 2011.	All claims resolved	Alan Moldawer Executive Vice President Veolia Transportation, Inc. (630) 382-1107 Alan.Moldawer@veoliatransdev.com Gary Lettengarver Director of Operations, SCRRA 2558 Supply Street, Pomona, CA 91767 (909) 596-3709 (O) (213) 494-8508 (M) lettengarverg@scrra.net
In addition to its rail operations in the United States, VTI and its subsidiaries and affiliates operate many other modes of transportation including bus, paratransit, taxi and shuttle services. In the US alone, Veolia employs more than 15,000 employees and operates on a daily basis hundreds of vehicles in providing such transportation services. In the normal course of its business operations, VTI and its subsidiaries are parties to many claims, disputes, arbitration proceedings and lawsuits, most of which involve small employee claims or third party injury claims. None of these matters are material to the performance of VTI's operations or its financial condition.				

Termination for Cause or Default

Contract	Describe reason for termination	Dollar amount involved	Current owner contact name, telephone number, and E-mail address
There have been no terminations for cause or default against VTI or its transportation subsidiaries or affiliates.			

Disciplinary Action

Action	Describe action taken	Current owner contact name, telephone number, and E-mail address
VTI and its Transportation subsidiaries and affiliates have not been subject to any disciplinary actions.		

Safety Issues/ Accidents

Issue/Accident	Describe issue/accident	Federal Railroad Administration investigation?	Current owner contact name, telephone number, and E-mail address
Collision of Metrolink Train and UP, freight train - Chatsworth, CA, September 2008	On September 12, 2008, a Metrolink train operated by a Connex Railroad crew collided head on outside Chatsworth, CA with a UP Freight Train. The accident resulted in 25 deaths, a significant number of injuries to the passengers and crews, and property damage to the trains and rail infrastructure. Investigations of the accident, including an investigation conducted by the NTSB found that the Metrolink engineer operating the train had been sending text messages in the time period before the accident, and that human factors were the cause of the accident. However, because the matter and all claims were settled, there was no judicial determination as to the cause of the accident, and all eye witnesses testified that the operating signal before the Metrolink train immediately prior to the collision was green.	Yes	Gary Lettengarver Director of Operations, SCRRA 2558 Supply Street, Pomona, CA 91767 (909) 596-3709 (O) lettengarverg@scrra.net Alan Moldawer Veolia Transportation, Inc. (630) 382-1107 Alan.Moldawer@veoliatransdev.com

Form PP
Past Performance

Issue/Accident	Describe issue/accident	Federal Railroad Administration investigation?	Current owner contact name, telephone number, and E-mail address
Collision of Metrolink Train and BNSF Freight Train – November 2008.	On November 20, 2008, Metrolink Train, operated by a Connex Railroad crew, failed to stop at a red signal and had a raking side collision with the last 8 cars and 2 locomotives of a westbound BNSF train that was entering a siding to meet the Metrolink train. The collision occurred at a Control Point near Rialto, CA. There were 15 passengers on the Metrolink train and 3 crew members. Four passengers received minor injuries. Neither train derailed. The Metrolink train received minor scraping damage to the left front corner of the locomotive. The 4-locomotive and 90-car freight train received minor scraping damage to 8 cars and the 2 locomotives that were at the rear of the train. Total damages were approximately \$25,000.	Yes	Gary Lettengarver Director of Operations, SCRRA 2558 Supply Street, Pomona, CA 91767 (909) 596-3709 (O) (213) 494-8508 (M) lettengarverg@scrra.net
During the past 10 years, VTI and its rail subsidiaries, in the normal course of operating commuter rail operations in the US, have been involved in numerous grade crossing accidents and trespasser strike events which have resulted in fatalities and serious injuries. In none of these situations has the accident or event been determined to be attributable to an error or omission of VTI or its rail operating subsidiaries.			
Under its various Operating Agreements, VTI and its rail subsidiaries are, and have been, responsible for compliance with safety regulations issued by various agencies, including the Federal Railroad Administration (FRA), the Occupational Safety and Health Administration (OSHA), and relevant state agencies. Violations are alleged by inspectors for these agencies from time to time and fines are imposed for these violations. In VTI's experience, the fines imposed with the alleged violations are typically \$5,000 or less, and VTI has always resolved these matters with the agencies by taking corrective action, implementing mitigating measures, and/or paying a sum less than the stated fine amount. The total number of such violations and fines during the past ten years at all of its various rail operations has been less than 20.			

Contact:

Hugh Kiley

Massachusetts Bay
Commuter Railroad, LLC

89 South Street, 8th Floor
Boston, MA 2111

(617) 222-8022



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